

Licensing

Contributing editor
Bruno Floriani



2017

GETTING THE
DEAL THROUGH

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DEAL THROUGH 

Licensing 2017

Contributing editor

Bruno Floriani

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Preface

Licensing 2017

Ninth edition

Getting the Deal Through is delighted to publish the ninth edition of *Licensing*, which is available in print, as an e-book and online at www.gettingthedealthrough.com.

Getting the Deal Through provides international expert analysis in key areas of law, practice and regulation for corporate counsel, cross-border legal practitioners, and company directors and officers.

Throughout this edition, and following the unique **Getting the Deal Through** format, the same key questions are answered by leading practitioners in each of the jurisdictions featured. Our coverage this year includes new chapters on China and Korea.

Getting the Deal Through titles are published annually in print. Please ensure you are referring to the latest edition or to the online version at www.gettingthedealthrough.com.

Every effort has been made to cover all matters of concern to readers. However, specific legal advice should always be sought from experienced local advisers.

Getting the Deal Through gratefully acknowledges the efforts of all the contributors to this volume, who were chosen for their recognised expertise. We also extend special thanks to the contributing editor, Bruno Floriani of Lapointe Rosenstein Marchand Melançon LLP, for his continued assistance with this volume.

GETTING THE
DEAL THROUGH 

London
February 2017

Overview

Bruno Floriani

Lapointe Rosenstein Marchand Melançon LLP

Anyone who has read or is familiar with the book *The Lexus and the Olive Tree* by the Pulitzer Prize-winning *New York Times* columnist Thomas L. Friedman, as well as his later book *The World is Flat*, will readily understand that the global economy is a fact of life. As a result, licensing in its different forms has become one of the most common vehicles used in international commercial transactions.

The different forms of agreements that are broadly treated as licence agreements typically include what are commonly known as 'technology-transfer agreements', which usually include a combination of patent, know-how and trademark licences (and even establishment of a plant for the production of licensed products), 'trademark licence agreements', 'copyright licences' (in respect of all forms of artistic works), 'software-licensing agreements', 'celebrity-licensing agreements' (in respect of the likeness, signature and other forms of endorsements of well-known individuals) and 'character-licensing agreements'. In addition, multiple variations and permutations of the foregoing types of licences may be used to create hybrid or sui generis forms of licence relationships, the common thread among them being the inclusion of the right to use any form of proprietary intangible property.

Even agreements that are recognised as creating another type of legal relationship will often contain licensing components; to cite but a few examples, distribution and supply agreements will often contain a limited or partial licence, franchise agreements typically contain multiple licences of intellectual property rights, and even traditional commercial agreements as varied as joint ventures or strategic alliances and marketing arrangements will usually contain licensing concepts.

As a result, licensing relationships involve, of necessity, greater analysis and a broader focus than those encountered in pure intellectual-property-driven issues and transactions. Essentially, any licensing component of a broader contractual relationship will require a particular focus on the commercialisation of intellectual property, especially when viewed from an international perspective. As a result, the scope of issues and concerns that arise, and that you will find are addressed in this publication, tend to be broader and more commercial in their nature than one might expect from a singular intellectual property perspective.

Ultimately, anyone engaging in any type of commercial transaction beyond the borders of one's country will need to have a basic grasp of the key legal and business considerations that will apply to any form of licensing in the targeted market, whether it is the predominant or simply an ancillary feature of the commercial transaction.

This publication, *Getting the Deal Through – Licensing 2017*, attempts to deal with these key issues, and also differentiates the various forms of licence agreements from franchise, distribution and agency agreements (which are covered in depth in separate publications, *Getting the Deal Through – Franchise* and *Getting the Deal Through – Distribution & Agency*).

It is also important to note that this publication is not to be used by a general practitioner with no prior licensing experience in the preparation or negotiation of international licence agreements. Rather, it is assumed that the readers of this publication have a fair amount of experience in drafting and negotiating domestic licence agreements, and have now been requested to prepare an international licence agreement on behalf of a client who wishes to grant a licence to a potential licensee in a foreign country.

Under most circumstances, it is the licensor's attorneys who are called upon to prepare the first draft of the international licence agreement, and it is in this context that this publication becomes an indispensable tool, given that familiarity with the laws of the foreign country that affect licensing is of the utmost importance. It would be essential to determine whether a particular aspect of a licence agreement that is of critical importance from the licensor's point of view (eg, a confidentiality, non-solicitation or non-competition undertaking of the licensee) could not be enforced to the licensor's satisfaction as a result of local laws or international treaties, and seek alternate solutions with a view to achieving a similar or related result.

Even more importantly, despite the fact that the parties to the international licence agreement may have chosen the laws of the licensor's own country to govern the interpretation and enforcement of such agreement, there are several subject matters for which it will nevertheless not be possible to exclude the application of the laws of the country or jurisdiction in which the licensed properties are to be exploited. For example, withholding tax on the payment of royalties by the licensee to the licensor, the validity, prosecution and defence of trademark, patent and other intellectual property rights, the conversion and transfer of currency to a foreign national, jurisdiction of the local courts over certain matters, and various other similar issues, will continue to be governed by the laws of the country or jurisdiction in which those licensed rights are in fact used. In addition, there are many issues normally dealt with in international licence agreements that may be deemed to be matters of public policy by local laws or the domestic courts, which the parties to the agreement cannot agree to circumvent, by contract or otherwise. Finally, several countries or jurisdictions go so far as to imperatively require that the agreement be governed by their local laws and strip the parties of the ability to contract out of such requirement.

For these reasons, it is critical that the licensor's attorneys have a good understanding of the key issues arising from the laws of a particular country before commencing the preparation of any agreement for use in respect of such country, as this understanding may impact the structuring of the relationship itself.

In fact, a review of responses to this questionnaire by contributors from several countries will also yield valuable knowledge concerning recurring issues that can be proactively addressed in a licence agreement template for international use so as to avoid structural deficiencies in the template and reduce customisation efforts for each country.

It would be nevertheless unadvisable to rely simply on a preliminary analysis of the key issues arising from local laws – it is equally imperative that the opinion of local counsel be sought before the international licence agreement is finalised and signed. Here again, this publication can be of considerable use in introducing you to a reliable and knowledgeable point of contact in a perhaps unfamiliar country.

Among the more pertinent issues that are dealt with in this important publication are the following:

- the different forms of licence agreements in use within a particular country;
- the difference between a licence agreement and a franchise, distribution or agency agreement so as to assist the drafting attorney in understanding the application of franchise-specific legislation;
- the right to sub-license or to institute legal proceedings relating to the licensed intellectual property;

- waivers, disclaimers and limitations of liability;
- the impact of termination on sub-licensed rights;
- whether the foreign country is a party to certain specific international conventions, such as the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and other relevant treaties;
- the application of certain antitrust or non-competition laws that would typically affect licence agreements; and
- other relevant issues such as:
 - whether improvements to licensed technology developed by the licensee can by contract legally become the property of the licensor;
 - whether the licensee can be prevented by contract from contesting the validity of licensed patents;

- the protection of know-how;
- confidentiality and whether certain proprietary items must be specifically defined;
- the duration of a non-compete provision and the conditions of its enforceability; and
- specific provisions relating to the licensing of software, if any.

Regardless of the perspective from which you are approaching this publication, the information herein – not to mention the logistical contacts for legal assistance in any country – will constitute invaluable knowledge and effective tools in getting that licensing deal through!

Brazil

Philippe Bhering, Jiuliano Maurer, Mina Spitz and Karlo Fonseca Tinoco

Bhering Advogados

Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

Among the principles outlined by the Brazilian Federal Constitution, companies duly organised and existing under Brazilian law may not generally be subject to any discrimination based on the nationality of its partners or shareholders. As a result, foreign companies may participate in a company incorporated in Brazil, except for certain activities where the law places specific restrictions, for instance: post office services, aviation, health services, nuclear energy, banking and insurance, broadcasting and exploration of natural resources. Nonetheless, such limitations do not usually affect international licensing agreements.

A foreign licensor that plans to carry out its activities in Brazil has basically two alternatives. One is to establish a Brazilian business entity in accordance with and to be governed by local norms and headquartered in Brazilian territory. This would include entering into joint ventures structured in the form of a Brazilian company.

The other option is to set up a direct operation in Brazil (eg, through a branch or representative office). This alternative is not generally advisable, since direct operations by foreign companies are subject to accounting and credit restrictions, as well as governmental authorisation. Official examination is usually long and discretionary, and the proper legal instrument for the granting of authorisation is a presidential decree. For this reason the vast majority of foreign companies choose to establish local subsidiaries or to acquire corporate interest in a Brazilian company, with either a majority or a minority stake.

Foreign licensors should also bear in mind that they must appoint and retain an attorney who is duly qualified and domiciled in Brazil, and with powers to represent them in administrative and judicial proceedings, including receipt of summons.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

Licensing is generally understood as an agreement under which the owner of an intellectual property right (IPR) grants authorisation to its use without an effective transfer of ownership. Licences are granted for a determined period of time and within a determined territory, on a remunerated or free-of-charge basis. A licensor may grant a licence in Brazil to practically any intangible asset, including patents, industrial designs, trademarks and copyrights.

The Brazilian Industrial Property Law (Law No. 9,279 of 14 May 1996) (BIPL) presents the general provisions on technology transfer agreements, which are further regulated by Normative Act No. 135 of 15 April 1997 of the National Institute of Industrial Property (INPI).

Normative Act No. 135 specifies the following categories of agreements that involve transfer of technology: licensing of rights (use of trademarks or exploitation of patents or industrial designs), the

acquisition of technological knowledge (supply of technology and rendering of technical assistance services) and franchise agreements.

The Brazilian Copyright and Neighbouring Rights Law (Law No. 9,610 of 19 February 1998) (BCL) determines that the economic rights of the author may be wholly or partly transferred by means of a licence agreement. In contrast, the moral rights of the author are inalienable and irrevocable, meaning they cannot be transferred, licensed or waived. Specifically in relation to the licensing of computer programs, provisions are found in the Brazilian Software Law (Law No. 9,609 of 19 February 1998) (BSL).

In addition to the above, it is possible to negotiate authorisations to use one's image, likeness, voice and name (commonly referred to in other jurisdictions as 'rights of publicity'). These individual assets fall under the category of personality rights, which are protected under several bodies of Brazilian law, namely the Federal Constitution and the Civil Code (Law No. 10,406 of 10 January 2002).

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Licensing agreements that involve transfer of technology, as defined by Normative Act No. 135, must be submitted for the approval of the INPI. The governmental endorsement does not serve as a condition of validity of the agreement between the contracting parties. Nonetheless, the licence will only become binding upon third parties after the approval is published in the INPI's Official Gazette. This effect has a definite impact on the enforceability of the licensed rights and exclusivity clauses by the local licensee. The INPI's approval is also mandatory for the remittance abroad of payments and tax deduction of such payments by the licensee.

The INPI performs a discretionary examination of technology transfer agreements, often applying interpretations that are internally consolidated but not found in any established legislation. The INPI's understandings must be carefully evaluated on the negotiation of licensing agreements, in particular those involving foreign licensors.

An example of such understandings imposes limitations on payments of fees, at least with respect to agreements between local subsidiaries and a foreign company with a majority stake, based on a complex set of tax rules mainly dating from the late 1950s.

In relation to patent exploitation licence agreements and supply of technology agreements (transfer of know-how), the INPI restricts the remittance of payments to percentages that vary from 1 per cent to 5 per cent over the fixed price per unit sold or in relation to net sales. These percentages were originally established for tax deduction purposes by the Brazilian Ministry of Finance's Ordinance No. 436 of 30 December 1958 and may vary according to the industry or technology area involved. As far as trademark licence agreements are concerned, the maximum limit allowed for the remittance of royalties is up to 1 per cent over the net sales price.

The BIPL prescribes that both the rights holder and the applicant may enter into a licensing agreement. However, payments will only be allowed after the licensed right has been duly patented or registered before the INPI.

Moreover, although Brazil's legal system generally accepts that parties are free to determine the term of the licensing agreement, the INPI will only approve it for the period of validity of the licensed industrial property right. In the case of trademark registrations, successive recordation amendments will be necessary for each renewal. Agreements involving the transfer of know-how (non-patented technology) must have a maximum term of five years, which may be extended for another five years, provided that technical justifications are submitted and accepted by the INPI.

4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

As mentioned in question 3, international agreements that involve the transfer of technology must be examined by and registered with the INPI for the purposes of enforcing third parties, remittance abroad of payments and deduction of such payments for local income tax purposes. The INPI may suspend or cancel an approval if it later finds that it is not in compliance with the applicable norms.

In addition, if one of the parties to the licensing agreement is a non-resident, the signature will have to be confirmed by a notary public in accordance with the norms of that jurisdiction. The notarisation will then have to be further legalised by the local Brazilian consular representation. Legalisation may be dismissed in agreements with parties resident in countries with which Brazil has signed cooperation treaties in judiciary matters.

5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

The Brazilian Civil Code provides for two major principles in relation to contractual relationships: the freedom to negotiate shall be based upon and limited by the social purposes of the agreement; and during the conclusion and performance of the contract, the parties must observe the principles of honesty and good faith. These general rules may serve as a basis to redress perceived inequalities or rewrite provisions viewed as being abusive. In other words, when Brazilian law is applicable, a local court may analyse the purposes and conditions of the agreement based on circumstances other than the written provisions.

Additionally, the Brazilian Civil Code provides that, where the law expressly or implicitly allows, a party may unilaterally terminate an agreement upon notification to the other party without good cause. Nonetheless, in agreements where good cause is required, its absence does not preclude termination, but the party that unjustifiably terminated the agreement shall be obliged to pay damages to its counterpart.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Yes. Pursuant to the Brazilian Franchise Law in force (Law No. 8,955 of 15 December 1994), franchising is a system whereby a franchisor grants to a franchisee the right to use a trademark or a patent, together with the exclusive or semi-exclusive right to distribute products or services and, eventually, also the right to use the technology of implementation and administration of business or operating systems developed or owned by the franchisor, through direct or indirect remuneration, without, however, being characterised as an employment relationship.

The INPI adopts a more liberal approach in the examination of franchise agreements compared with other technology transfers. For instance, since the grant of a franchise includes the use of a mark or a patent, it is required that the franchisor must have, at least, filed an application for such rights in Brazil. Nevertheless, as opposed to basic trademark or patent licences, it is possible to include applications in a royalty-bearing franchise agreement. This is acceptable because remuneration on franchise agreements is not restricted to the licence itself. Rather, the franchisee is expected to pay initial affiliation fees, advertising fees and other periodical charges for the use of the system or in return for technical assistance and other services effectively rendered by the franchisor.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Brazil is party to all three of the aforementioned treaties.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

A contractual disposition that limits the free and ample exercise of a given right may possibly be considered abusive by a Brazilian court. This includes conditions preventing challenges to the validity of a foreign licensor's IPRs or registrations.

However, it is generally accepted that a licensee may not impose undue obstacles on a foreign licensor's IPRs or registrations. In addition, it is advisable to contractually prohibit the licensee from applying for registrations of the licensed rights.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The invalidity or expiry of registration of an IPR will usually be deemed cause for the termination of the licence. Accordingly, given that the right of the licensee to freely compete is not expressly regulated by Brazilian law, it will be bound to the terms and provisions of the licence agreement.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

No such registration or evidence of use is necessary. As a rule, Brazilian law does not make any distinction based on the nationality of the applicant for registration. The only requirement unique to foreign nationals is to appoint and retain an attorney who is duly qualified and domiciled in Brazil.

Registration and use in the country of origin becomes relevant when the priority right of the Paris Convention is applicable. In relation to trademarks, depending on the type of evidence that is provided, such factors could also support the application of article 6-bis and quin-ques of the Paris Convention.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Unregistered trademarks may be licensed in Brazil. However, in order to license its use, the licensor must have at least filed an application for registration in Brazil. It is important to highlight that the remittance of payments from trademark licences will only be accepted after grant of a respective trademark registration by the INPI. Retroactive payments before the grant of the trademark registration are not allowed.

Likewise, a patent application may be subject to a licence agreement.

As far as copyrights are concerned, the economic rights of the author may be wholly or partly transferred by means of a licence agreement.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

As mentioned in question 3, international agreements that involve the transfer of technology must be examined and registered with the INPI for purposes of enforcing third parties. The licence will only become opposable erga omnes after the approval is published in the INPI's Official Gazette. It must be highlighted that the recordal by the INPI is not a condition for the licence agreement to be valid or even effective between the contracting parties. The importance of the official approval is mostly related to providing third parties with the opportunity to become aware of the contents of the agreement, including the exclusivity of use in a given territory.

The same applies to a security interest taken in industrial property rights. In accordance with the BIPL, the INPI shall register any limitation or onus that applies to applications, registrations or patents. The recordal of such limitations becomes effective with regard to third parties on the date of publication in the Official Gazette.

Although the validity of copyright and software licences and of authorisations deriving from personality rights does not depend on prior official registration, it is advisable that such agreements are entered in the competent Registry of Deeds and Documents. Further, if copyright or software licences are agreed between a foreign licensor and a related local subsidiary, transfer-pricing restrictions may apply.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

A foreign owner or licensor may institute such proceedings without joining the local licensee. On the other hand, the licensee may be contractually invested with powers to enforce the licensed right. In relation to patent, trademark and other technology transfer licences, the agreement will have to be registered by the INPI in order to legitimise a licensee's standing to bring suit.

Without the express consent of the owner or licensor, the licensee will not be able to institute proceedings against an infringer. The licensee can also be contractually prohibited from doing so. It is advisable, however, that the licence agreement determines an obligation for the licensee to cooperate with the licensor to cease third-party infringements. Even when the licensee lacks standing, it would be possible to intervene in the form of assistant (*amicus curiae*) to the foreign owner or licensor.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

Sub-licensing would only be acceptable if provided for in the original licence agreement. As a rule, the right to sub-license does not exist statutorily and must be granted contractually.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Brazil follows a 'first to file' system in relation to both patents and trademarks. Some specific exceptions are prescribed by the BIPL. For instance, a person who, in good faith, prior to the filing or priority date of a patent application, was exploiting the object thereof in Brazil may assert the right to continue the exploitation in the same manner and under the same conditions as before.

Another exception is found in relation to trademarks. Pursuant to the BIPL, a person who, in good faith, had been using an identical or similar mark in Brazil for at least six months prior to the filing of the application may claim the right of preference for the registration.

A foreign licensor may license the use of an invention subject to a pending patent application. The licensor will not be able to receive royalties until the patent is granted.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

The BIPL expressly forbids patents over commercial, accounting, financial, educational, advertising, lottery and inspection schemes, plans, principles or methods. It also excludes from protection living organisms, in whole or in part, as well as biological materials found in nature, even if isolated therefrom. In contrast, the BIPL allows patents over transgenic micro-organisms, which are defined as organisms that express, by means of direct human intervention in their genetic

composition, a characteristic normally not attainable under natural conditions.

Software per se is protected under copyright, not patent. However, the INPI has admitted patents that include software for processes or that integrate diverse equipment, provided that the patentability requirements of novelty, inventive step and industrial application are met.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

Trade secrets are protected under unfair competition provisions found in the BIPL. Among other conduct, a crime of unfair competition is committed by any person who discloses, exploits or uses, without authorisation, confidential knowledge, information or data that could be used in industry, commerce or service rendering, unless such knowledge, information or data is public knowledge or obvious to an expert in the relevant subject. The violator must have gained access to the trade secret through fraud or by means of a contractual or employment relationship, even after its termination. Therefore, if the object of the trade secret is discovered or developed by licit independent means, no infringement will generally be found.

Know-how is not clearly defined by specific legislation. It is generally understood by local administrative and judicial authorities as knowledge or techniques not covered or registered as industrial property rights, which are used in the manufacture of goods or in the rendering of services.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

Foreign licensors should be aware that the INPI does not admit temporary licensing of know-how. Rather, the predominant understanding is that non-patented technology is only subject to disclosure or permanent acquisition. Therefore, the INPI will not approve contractual dispositions prohibiting the local licensee to continue exploring the transferred know-how.

Non-disclosure clauses are generally admitted during the term of the licence agreement and for a reasonable period after termination. In many cases, the INPI has considered five years after termination as a reasonable confidentiality period.

19 What constitutes copyright in your jurisdiction and how can it be protected?

Copyright constitutes an arrangement of economic and moral prerogatives that the law recognises to creators of original works of authorship. The Brazilian Constitution determines that authors shall have the exclusive rights of use, publication and reproduction over their works. These exclusive economic rights may be transferred to the author's successors, for a time fixed by law.

Traditionally, the author's rights in Brazil were conceived as a part of the general legal branch of civil law, regulated in the former Civil Code of 1916. The protection was later regulated in specific norms; the most recent and in force are the BCL and the BSL.

In accordance with the BCL, intellectual works subject to protection are original creations of the mind, whatever their mode of expression or the medium in which they are fixed, tangible or intangible, known or capable of invention in the future. Such protectable creations include literary works, musical compositions, films, photographs, drawings, paintings, sculptures, illustrations, animations, adaptations, translations, collections, compilations and computer software.

As a general rule, the BCL sets the duration of economic rights for a period of 70 years counted from 1 January of the year following the author's death. The BSL sets the duration of the rights associated with computer software for a period of 50 years counted from 1 January of the year following publication or creation.

Protection of copyright in Brazil is not subject to registration, notice or any other formalities. The granting of copyright is automatic upon creation of an original work of authorship, even if the work is not fixed in a tangible medium. Nonetheless, optional registration

is recommended to evidence authorship and the date of creation of the work. Registration is performed by different official organisations, depending on the nature of the work. For instance, the registration of literary works may be filed at the Copyright Office of the Brazilian National Library, and the registration of computer software is requested at the INPI.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

It is advisable to require such assignment by the licensee to the licensor. Pursuant to the BCL, copyright assignments must be effected in writing and are interpreted in favour of the author. Unless otherwise agreed, copyright over works created under an employment or contractual relationship is presumed to remain with the author. This general presumption is not applicable to rights over software, which title will belong automatically to the employer or the independent contractor. It should also be noted that assignments of future works may not exceed the term of five years.

Differently from other jurisdictions that follow the 'work for hire' doctrine, in Brazil only natural persons may be considered authors for the purposes of copyright protection. Initial ownership is vested in the individual who created the work, but there is an exception to that principle: the BCL defines a category of works named 'collective works'.

Collective works are those created by initiative, instructions and responsibility of an individual or a business entity that publishes them under its name or mark. They must be conceived by two or more authors whose contributions are merged into self-contained creations. Although in cases of collective works a company may be considered the initial owner of copyright, it will never be regarded as an author or co-author. Moreover, individual contributions to collective works benefit from independent copyright protection.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

The Brazilian Software Law does not provide specific restrictions on perpetual software licences.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

There is no general requirement to be complied with for one to be able to register or license software in Brazil, nor there is any import or export restriction. However, the Brazilian Software Law determines that all acts and agreements for the licensing of commercialisation rights relating to software programs of foreign origin must establish, as regards the payable taxes and charges, the liability for the respective payments. As mentioned in question 13, the validity of common software licences does not depend on prior official registration. In the cases of transfer of technology of a software program, the INPI must approve and register the respective agreements.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensee bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

Pursuant to the BSL, improvements and modifications authorised by the owner of the rights over the licensed software, including their economic exploitation, belong to the authorised person that executes them, unless provided otherwise under contract. Moreover, the BSL sets out legal warranties for the end user of the software through which, the owner, licensor or the one that commercialises the software in Brazil is required to provide supplementary support services for the proper operation during the term of technical validity of the respective software version.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

Such processes or routines are generally allowed. In fact, the Brazilian Copyright Law specifically qualifies as an infringement the removal or modification of technical devices or encrypted signals that have been incorporated in copies of protected works to prevent or restrict unauthorised use.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

To date, Brazilian courts do not appear to have dealt with this issue. Nonetheless, the BSL expressly prohibits provisions that exempt the contracting parties from any third-party actions arising from misuse, flaws or violation of copyright.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

The Brazilian laws and regulations, especially the federal Constitution, protect the privacy of the individuals. Hence, the interference with the users' control over their devices by software is most likely to be considered by the courts as an invasion of privacy. In regard to the implementation of automatic updates, upgrades, additional programs, features, functions or changes to the software, as well as causing the software to connect to or send messages to other computer systems, it can be permitted by the law in Brazil if previously agreed by the user in the software license contract.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

We are not aware of any court cases questioning the enforceability or applicability of public licences for open source software. In our opinion, they are enforceable provided that other legal conditions for the licensing of computer programs are met.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

As mentioned in question 3, the INPI sets various restrictions in relation to payments resulting from an international licensing relationship. It should also be noted that Brazilian law distinguishes the compensation of know-how agreements (commonly referred to as 'technical assistance' or 'non-patented technology'). According to the tax norms in force, payments resulting from know-how agreements are technically designated as 'remuneration'. The expression 'royalties' is more commonly applied to the licensing of trademarks, patents or copyrights and franchise agreements.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

Pursuant to the Brazilian Foreign Capital Law (Law No. 4,131 of 3 September 1962) and other applicable provisions (Ordinance No. 436 of the Ministry of Finance, Law No. 4,506 of 1964, Law No. 8,383 of 1991, Decree No. 55,762 of 1965 and Decree No. 3,000 of 1999), foreign investments must be registered with the Central Bank of Brazil to allow the remittance abroad of dividends, interest on equity and funds related to repatriations of capital. Foreign capital receives the same

legal treatment given to national capital, in identical conditions. Any distinction not provided by law is prohibited.

Remittances related to foreign capital duly registered with the Central Bank may be effected at any time without preliminary approval of that official institution, provided that other corporate and tax requirements are met. In relation to the remittance of royalties or other fees or costs resulting from technology transfers, the relevant agreement must be approved by the INPI prior to the registration with the Central Bank.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

A foreign licensor that has not established a local operation in Brazil would only be taxed on the income generated in our jurisdiction. As a general rule, payments from sources located in Brazil to companies abroad are subject to withholding income tax. Payments resulting from technology transfer agreements and other intellectual property licences are subject to a withholding income tax currently levied at a general rate of 15 per cent, unless a lower rate is provided for in an international treaty. Brazil has signed treaties to avoid double taxation with many countries, including Argentina, Austria, Canada, Chile, China, France, Israel, Italy, Japan, Mexico, Portugal, South Africa, South Korea, Sweden and Spain.

Licensing agreements are subject to other taxes, such as the contribution for intervention in the economic domain (CIDE), service tax (ISS) and the contribution to the social integration programme and contribution for social security financing on importation (PIS and COFINS on imports). However, only the responsibility for payments of the withholding income tax might be subject to negotiations of the contracting parties.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

Brazilian courts may render judgments in a foreign currency, provided that the resulting payment is executed using national currency. It is generally recognised that the conversion into national currency shall occur on the date of actual payment. It should be noted that the payment clause in the licence agreement must have definitions with respect to the exchange rate applicable to payments owed in foreign currency.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

The Brazilian Antitrust Law (Law No. 12,529 of 30 November 2011) expressly prohibits business practices that potentially restrict trade. The Brazilian Administrative Council for Economic Defence is the authority legally responsible for examining the impact of suspicious behaviour, including contracts for the use or exploitation of IPRs.

The competition authorities are able to restrain certain types of behaviour, if they produce or are capable of producing the following effects:

- limiting, restraining or in way harming competition or free enterprise;
- controlling the relevant market of certain products or services;
- increasing profits arbitrarily; and
- abuse of a dominant position.

These are essential requisites for the classification of business behaviour as anticompetitive, as well as it being necessary to analyse its object, marketing structure and peculiarities, and their generated consequences.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

There is no provision in Brazilian law relating to specific conditions that must be taken into account when analysing licence agreements in respect of competition issues. Following the rule of reason, there is no contractual clause deemed anticompetitive per se. The principle

of effective competition, foreseen in the Brazilian Constitution, shall guide the analysis of licence agreements.

To be considered illegal, practices must result in the anticompetitive effects mentioned in question 32. In order to ascertain the existence of said effects, licence agreements shall be analysed on a case-by-case basis within the economic context of the contracting parties and their relevant market.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

Yes, Brazilian judicial courts have issued decisions condemning corporations, for example, for bad faith and sham litigation for filing lawsuits with the objective of extending the term of protection of their patents. Some of these cases have been reverted in second instance. In addition, there is a recent case in Brazil in which the Brazilian Anti-Trust Agency (CADE) considered that a pharmaceutical company had an anticompetitive posture in performing several actions called 'contradictory and misleading' by CADE with the objective of maintaining its exclusive rights over the production and commercialisation of a medication product, imposing some restrictive measures and a fine to such company.

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Such provisions are enforceable, and insurance cover to protect a foreign licensor is available in support of an indemnification provision with respect to acts and omissions of the licensee.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Limitation of liability is generally enforceable, provided that principles of good faith and of the social function of the contract are respected. As a result, limited liability may not be accepted in cases of proven wilful misconduct, gross negligence or another wrongful act. One of the main exceptions that may affect international licensing is found in the Brazilian Consumer Protection Code (BCPC) (Law No. 8,078 of 11 September 1990). The BCPC declares provisions abusive that prevent, exempt or otherwise reduce liability of a supplier of goods or services for defects or damages of any nature. The inclusion of such provisions on consumer agreement is therefore prohibited, except when the consumer is a legal entity and in justifiable situations.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

It is generally admitted that agreements with indefinite terms may be terminated by any party, on condition that reasonable prior notice is given. Pursuant to the Brazilian Civil Code, if, given the nature of the agreement, one party has made significant investments for its execution, unilateral termination will only take effect after a period that is reasonable for the nature and amount of the investments.

The Civil Code also determines that the debtor may request the termination of the agreement when the contractual obligations become excessively onerous, with great advantage to the other party, owing to exceptional and unforeseeable events. If the contractual obligations fall upon only one party, he or she may plead the obligation to be reduced or changed, in order to avoid excessive financial burden.

Update and trends

The Brazilian Congress created a Mixed Parliamentary Front in Defence of Intellectual Property and to Fight Counterfeiting with the objective of proposing practical actions to strengthen mechanisms of innovation, competitiveness and productiveness in Brazil. The members are giving special attention to bills that make penalties for crimes against Intellectual Property, prescribed in the BIPL, so that they are more stringent and will help to reduce costs and bureaucracy involved in obtaining and enforcing IP rights, including trademarks.

On 18 March 2016, the New Brazilian Code of Civil Procedure (NBCCP) entered into force, aiming to modernise and bring more efficiency to the existing judicial system. Among other new developments, the new Code brings an innovation to the system by including a whole chapter dedicated to the *amicus curiae*, which makes it the first law in the Brazilian system to expressly mention such figure. In addition, the NBCCP encourages litigating parties to settle, allows them to modify the procedure in order to adapt it to the particularities of the case and expressly addresses the validity of forum selection clauses.

On 15 July 2016, the Brazilian PTO issued Resolution No. 170 regarding the 'e-CONTRATOS' system, which allows the user to file online any petition or document regarding contracts. One of the

innovations brought by Resolution No. 170 is that documents must be submitted as a copy of the original, sparing the need and costs to obtain certified copies, except when specifically requested by the Brazilian PTO. On the other hand, it will be a burden of the petitioner to keep the original of any document submitted, in the event the Brazilian PTO asks to verify the original. Between the transitional period of 15 July 2016 and 31 December 2016, in addition to the online filing through the e-CONTRATOS, users can still file petitions in form as well. However, as of 1 January 2017, the Brazilian PTO will only accept petitions and documents filed through the e-CONTRATOS system.

On 23 September 2016, with the objective of optimising the administration and improving the operational development of the Brazilian Patent and Trademark Office, it was published Decree No. 8.854, which established a new organisational structure for such institute. One of the relevant measures brought by the new structure is the extinction of the Contracts Directory, and the determination that the General Coordination of Technology Contracts, which is responsible for the registration of licensing contracts involving Industrial Properties rights, is now subordinated to the Presidency of the BPTO.

- 38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?**

In principle, termination or expiration of a licence agreement would cause the cessation of any legal effect regarding sub-licences granted by the licensee. Should a contractual provision authorise the sub-licensing after the termination or expiration of the licence agreement, it would be enforceable if it is clear in addressing this issue (ie, if the clause contains specific authorisation for the continuation of the sub-licensing and also contains a term of validity for such sub-licensing).

Bankruptcy

- 39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?**

Pursuant to the Brazilian Bankruptcy Law (Law No. 11,101 of 9 November 2005), contracts are not automatically terminated by bankruptcy. In fact, the trustee may continue the performance of the agreement when necessary to maintain and preserve the assets of the bankrupt estate. If there is no contractual provision for termination in the event of bankruptcy, the agreement remains in force. As a result, it is very common and highly advisable to include such provision in an international licensing agreement. The contract would terminate not as a result of the bankruptcy itself, but by virtue of the will of the contracting parties.

Governing law and dispute resolution

- 40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?**

Following provisions set by the Introductory Law to the Brazilian Civil Code (Decree-Law No. 4,657 of 4 September 1942), in order to qualify and govern agreements and other kinds of obligations, the law of the country where they are constituted will apply. It further stipulates that the obligation resulting from an agreement is presumed to be constituted in the place of residence of the party that makes the proposal. In view of these provisions, it is generally understood by legal commentators that the parties are not free to choose the law that will govern the licensing arrangement.

- 41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.**

Yes. Pursuant to the Brazilian Arbitration Law (Law No. 9,307 of 23 September 1996), the parties may freely choose the rules of law to be applied in arbitration, as long as there is no violation of good morals and public order. Arbitration proceedings may be conducted in any jurisdiction. If, however, the arbitration clause in a given agreement makes reference to the rules of a particular arbitral institution or specialised entity, the arbitration shall be instituted and conducted in accordance with such rules, unless otherwise agreed by the parties. Lastly, yes, the parties can agree to preclude collective arbitration. As per Brazilian laws and regulations, the parties of a contract are permitted to freely specify the terms of the contract. The freedom of the parties in choosing the clauses of the contract is limited by contract law, basically the Brazilian Civil Code, which brings principles that parties firming an agreement must follow to seek to maintain the fairness of contract. A clause in the contract expressly waiving arbitration is enough to be enforceable as a contractual waiver. Pursuant to the Federal Constitution, the law shall not exclude from judicial examination violations of or threat to a right. This legal principle poses a significant obstacle to the enforceability of contractual waivers of matters involving good morals and public order. However, because choosing arbitration, or waiving this right, is a choice of the parties that does not involve good morals or public order, the waiver clause would not be subject to judicial examination.

- 42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?**

Court judgments or arbitral awards from other jurisdictions are enforceable in accordance with local norms and international treaties. Brazil is party to the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention of 1958).

In order to be recognised and enforceable in Brazil, foreign judgments or arbitral awards must be submitted to the approval ('homologation') of the Superior Court of Justice (STJ), the highest Brazilian appellate court for non-constitutional matters. The STJ will not examine the merits of the foreign decision, but will check if it complies with the following formalities:

- the foreign decision must have been rendered by a competent judge;
- the parties must have been served proper notice of process or arbitration;
- the judgment or award must be final and in proper form for its enforcement in accordance with the laws of the jurisdiction where it was rendered;

- the foreign decision must be legalised by the competent Brazilian consulate and must be submitted to the STJ with a sworn translation; and
- the judgment or award must not be contrary to Brazilian national sovereignty, public policy or good morals.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available in Brazil. It requires demonstration of sufficient legal basis together with probable success on the merits (*fumus boni juris*), as well as of risks that the delay would deprive the legitimate exercise of the violated right and cause irreparable harm (*periculum in mora*). The new Brazilian Code of Civil Procedure allows the

parties to change the procedure to adapt it to the specificities of the case, which could be interpreted as an allowance to renounce the right to injunction reliefs. Nevertheless, the Brazilian Federal Constitution establishes the right to bring suit within the category of fundamental rights and guarantees. A contractual waiver of injunctive relief would be considered null and void. Pursuant to the Federal Constitution, the law shall not exclude from judicial examination any violation of or threat to a right. This legal principle poses a significant obstacle to the enforceability of contractual waivers of injunctive or other equitable relief on judicial proceedings, particularly when related to matters of public order. The right to seek relief would be within the discretion of the court. Alternatively, as mentioned in question 41, if the parties contractually agree to arbitration instead of resorting to the courts they may, in principle, freely choose the rules of law to be applied in arbitration proceedings.

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Overview

- 1 Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

A foreign licensor that simply grants a licence to a Canadian entity without a permanent establishment or employees in Canada faces no restrictions. In addition, Canadian law imposes no requirement on foreign licensors to proceed by establishing a subsidiary or branch office, or have employees, in Canada. However, a foreign licensor that establishes a business entity or enters into a joint venture in Canada must, pursuant to the Investment Canada Act (Canada), notify Industry Canada no later than 30 days following such acquisition or establishment. Additionally, a more onerous and thorough review process applies to non-World Trade Organization investors where the asset value of the acquired Canadian business is at least C\$5 million for direct acquisitions or C\$50 million for indirect acquisitions. However, the C\$5 million threshold will apply to indirect acquisitions where the asset value of the acquired Canadian business represents greater than 50 per cent of the asset value of the global transaction.

A similar review process is also applicable to World Trade Organization investors that are not state-owned enterprises acquiring control of a Canadian business, but only in cases of direct acquisitions where the enterprise value of the Canadian business is at least C\$600 million (C\$800 million starting 24 April 2017 and C\$1 billion starting 24 April 2019).

For investments by state-owned enterprises to directly acquire control of a Canadian business, whether they are WTO investors or not and whether the Canadian business that is the subject of the investment is, immediately prior to the implementation of the investment, 'controlled by a WTO investor', the review threshold for 2016 has been set at C\$375 million in asset value (this threshold is revised annually to reflect the change in Canada's nominal GDP (the threshold for 2017 was not known at the time of writing)).

Canada is a federal system of parliamentary government, and as such the regulation and administration of certain trans-provincial industries fall within the sphere of federal legislative powers. As for those under provincial jurisdiction, various provinces have regulated certain industries viewed as having particular importance or significance. Thus, several federal and provincial statutes place restrictions on foreign ownership in specific industries, such as aviation, collections, engineering, farming, fisheries, banking, trusts and loans, securities, broadcasting, telecommunications, insurance, liquor sales and industries that involve the exploitation of Canada's natural resources. However, these restrictions do not typically affect international licensing agreements.

Other than as described above, there is no specific filing or regulatory review process applicable to foreign licensors looking to establish a business entity or joint venture in Canada.

Kinds of licences

- 2 Identify the different forms of licence arrangements that exist in your jurisdiction.**

Licensing is used in Canada to allow others to use any form of intellectual or industrial property rights, as well as the notoriety that attaches to certain individuals. Thus, traditional forms of licences in respect of trademarks, patents, copyrights (for artistic works, photographs and software), trade secrets and know-how are very common, as well as combinations thereof in the form of technology transfer agreements (which may even include the establishment of a plant for the production of licensed products). In addition, celebrities have taken to licensing their likeness, signature and other forms of endorsement, and well-known cartoons and other characters have also been successfully licensed for the Canadian market.

Law affecting international licensing

- 3 Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

No legislation directly governs international licensing relationships or expressly requires the registration of a licence from a foreign national with any authorities. However, certain Canadian provinces, namely, Alberta, British Columbia, Manitoba, New Brunswick, Ontario and Prince Edward Island have enacted legislation that specifically governs franchise relationships (collectively, the Franchises Acts).

Given that the term 'franchise' is broadly defined under the Franchises Acts, a variety of other contractual relationships, including licensing agreements, may possibly be encompassed. Therefore, particular care should be taken when drafting licensing agreements to avoid falling within the sphere of franchising legislation. These issues are more particularly addressed in question 6. Additionally, there may be specific regulations that govern the sale of certain products in Canada, such as medication, alcohol and food. In addition, certain intellectual property rights may require registration, as is more fully discussed in questions 7 to 20.

- 4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

No disclosure or registration requirements pertain specifically to international licensing arrangements. However, as mentioned in question 3, the broad definition of a franchise under provincial franchise legislation may, in certain circumstances, encompass licensing arrangements. If a licensing arrangement falls within the definition of a franchise under any of the Franchises Acts, certain disclosure and registration requirements must be met, namely the franchisor's obligation to provide certain pre-signing disclosure to potential franchisees. Further, the Franchises Acts also impose a duty of fair dealing on both franchisor and franchisee in the performance and enforcement of their obligations. The Civil Code of Quebec imposes on contracting parties a general duty to disclose material factual matters that may incite a reasonably prudent person not to enter into the contract. This obligation to provide information flows from the general obligation of good faith,

which is codified. In the context of a licensing relationship, this would likely entail an obligation on the licensor to disclose all material information relating to the licensing arrangement to potential licensees prior to requiring the potential licensee's signature.

5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

As mentioned in question 4, the Franchises Acts impose a duty of fair dealing on all parties, which includes a duty to act in good faith and in conformity with reasonable commercial practice.

The Supreme Court of Canada has found that there is an inherent duty for parties to honestly perform their contractual obligations. Many common law courts have historically held that an implicit obligation of good faith exists in contractual dealings. A perhaps more fulsome obligation exists under articles 6, 7 and 1375 of the Civil Code of Quebec, which impose a duty on all parties to conduct themselves in good faith during contractual dealings. Further, in circumstances where the essential stipulations in an agreement were imposed or drawn up by one of the parties and were not able to be freely negotiated, the contract may qualify as an adhesion contract. The qualification of an agreement as an adhesion contract under the Civil Code of Quebec provides principles of interpretation more favourable to the party on whom the agreement was imposed and a significantly broader margin of redress for the adhering party than would otherwise be available.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Given the breadth of the definition of a franchise under the Franchises Acts, careful consideration of the licensing structure is required in order that the licensing arrangement not qualify as a franchise under each of the Franchises Acts. In particular, while the licensor may control how the licensee uses its patents, know-how or trademarks, the licensor should be careful not to dictate the licensee's method of operation or how the licensee carries on business.

Each of the Ontario, Manitoba, New Brunswick, Prince Edward Island and British Columbia Franchises Acts defines a franchise as a right to engage in a business where the franchisee is required to make one or several payments to the franchisor in the course of operating the business or as a condition of acquiring the franchise or commencing operations, pursuant to which the franchise is granted either:

- the right to sell goods or services substantially associated with the franchisor's trademarks, in circumstances where the franchisor has significant control over, or offers significant assistance in, the franchisee's method of operation; or
- representational or distribution rights to sell the goods or services supplied by the franchisor or its designated supplier, and the franchisor provides location assistance to the franchisee.

The Alberta Franchises Act has a similar definition that requires a marketing or business plan substantially prescribed by the franchisor and that is associated with its trademarks, the continuing obligations by the franchisee to the franchisor, significant continuing operational controls over the franchised business, or any direct or indirect payment to purchase or operate the franchised business.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Canada is party to all three of the aforementioned treaties.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

A licensor may contractually prohibit a licensee from contesting the validity of a foreign licensor's intellectual property rights.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The effect essentially depends on the nature of the intellectual property right and the terms of the licence agreement. Copyright exists and subsists upon creation of a work, as will the author's moral rights in such work, regardless of registration.

Patents and industrial designs, on the other hand, require application, registration and maintenance to establish a continued right. If the patent or design registration lapses, is ruled invalid or expires during the term of the licence, a lapse of consideration may arguably have occurred resulting in termination of the licence. It is recommended that a licence agreement make provision for such events. Often, all aspects of an invention may not be entirely patentable. In such cases, the 'unpatentable' aspects may be protected by trade secrets or know-how that can be licensed jointly with, and may survive the expiration of, the patent. The subject matter of the licence may also deal with confidential information and a fiduciary obligation with respect to know-how and trade secrets. In some instances, the licence will terminate if the information falls into the public domain or is disclosed by the licensee without authority.

Even upon expiry of a registered right, the licence may contractually stipulate a period of non-competition and an ongoing obligation not to use trade secrets or confidential information obtained from the licensor.

A trademark licence may exist in relation to acquired or residual goodwill of a trademark despite an invalid or lapsed registration. However, if invalidity of the registration is due to abandonment or non-use, the licence may arguably have lapsed on the basis of an exhaustion of consideration or by its terms. To the extent that a licence remains in effect under the above-mentioned guideline, royalties can continue to be levied.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

As a general rule, a foreign licensor may register a trademark in Canada without prior registration in the country of origin.

Nevertheless, a licensor may base a Canadian trademark application on the existence of use and registration of the trademark in the country of origin – in such circumstances it is important to ensure that, as at the date of application in Canada, the mark was in use and registered in the foreign jurisdiction. The objective is to avoid a technical flaw in the Canadian application at the date of filing that can result in a successful ground of opposition or a possible invalidity challenge to the registration. A certified copy of the foreign trademark registration will be required during prosecution of the application to permit advertisement in the Canadian Trade-marks Journal. However, it is important to note that Canada has adopted amendments to its trademark law (in order to enable accession to the Madrid Protocol), which are set to come into effect in 2018. One of the material amendments would be the removal of the requirement that a trademark be 'used' prior to registration, ultimately allowing applicants to register trademarks in Canada without having used the mark anywhere in the world.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

A trademark, whether registered or unregistered, may be licensed along with the associated goodwill. All other intellectual property rights, whether registered or unregistered, may also be licensed.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

There are no requirements as to the form of a trademark licence as long as there is consent among the parties to, and consideration for, the licence. There are no particular restrictions against the licensing of an unregistered trademark. However, unregistered trademarks can

only be protected by common law and statutory rules and limitation of a passing-off action, rather than the statutory remedies in the Trade-marks Act (Canada) available for the protection of registered trade-marks. For the trademark to remain valid and distinctive of the source of the goods or services, the owner must be given (and exercise) some direct or indirect control of the character or quality of the wares and services licensed. Public notice of ownership of the trademark and the fact that the mark is used under licence will create a presumption that the licensor is the owner of the trademark and exercises control over the character and quality of the goods or services.

There is no requirement to register a trademark licence and there is no clear adverse effect of failing to do so in a timely manner. However, if filed, the Trade-marks Office will simply note in the official file that a licence has been put in place.

Under section 13(4) of the Copyright Act (Canada), a copyright licence must be granted in writing and must be signed by the owner of the right in respect of which the licence is granted, or by the owner's duly authorised agent. The grant of a copyright licence may be registered, and any registered licensee will take priority over a prior unregistered licensee without notice.

Section 57(3) of the Copyright Act (Canada) stipulates that any assignment or licence granting an interest in a copyright shall be judged void against any subsequent assignee or licensee for valuable consideration without actual notice, unless the prior assignment or licence is registered as prescribed by the Copyright Act before the registration of the instrument under which the subsequent assignee or licensee claims.

The perfection of security interests in personal property, whether tangible or intangible, is regulated under provincial legislation, which will require registration of the security interest with provincial registers of security interests in order to be perfected or opposable against third parties. However, unregistered trademarks can only be protected through the institution of a passing-off action at common law and as otherwise governed by the Canadian Trade-marks Act. Such actions require the establishment of goodwill, and protection will generally be limited to those geographic areas in Canada in which a reputation and goodwill have been acquired for the trademark through use. Registration under the Canadian Trade-marks Act allows a trademark owner to enforce its rights throughout Canada even in those areas in which reputation and goodwill have not been acquired, thereby reserving the field for a trademark owner and potential licensees.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

Under section 50(3) of the Trade-marks Act (Canada), unless otherwise contractually stipulated, the licensee may call upon the owner of a trademark to institute proceedings for trademark infringement. If the owner refuses or neglects to institute proceedings within two months of being so requested by the licensee, the licensee may institute proceedings for trademark infringement in its name as if it were the owner, making the owner a defendant.

Unless otherwise contractually stipulated, section 55 of the Patent Act (Canada) provides that a person who infringes a patent is liable to the patentee and to all persons claiming under the patentee for acts of infringement. The patentee must bring the action, be joined as co-plaintiff or, if the patentee refuses, be joined as a defendant. There is Canadian case law to the effect that a person claiming under the patentee includes exclusive and non-exclusive licensees. Accordingly, a licensee may institute patent infringement proceedings, joining the patentee as a co-plaintiff or as a defendant if the patentee refuses to be joined.

As such, it is strongly suggested that this issue is addressed in the licensing agreement. In Canada, a licensee of either a patent or a trademark may be contractually prohibited from instituting proceedings or being joined to proceedings against a third party for infringement.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

The right to sub-license is not specifically addressed under statute. Thus, unless such rights have been granted in the licence agreement, it is not clear whether a licensee may sub-license its use to a third party. Given that a licensor will usually want to control sub-licensing, it is recommended that the right to sub-license is specifically addressed in the licensing agreement.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Canada is a 'first to file' jurisdiction in relation to patents. However, it is a 'first to use' jurisdiction in relation to trademarks where the first user is paramount in relation to subsequent use or filing.

A patent licence can be granted over an invention in respect of which a patent application has been filed but not yet issued in Canada.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

Under guidelines adopted in October 2010 by the Canadian Intellectual Property Office, computer software is not generally considered to be a stand-alone patentable invention. However, to the extent that the program, when run by a computer, provides a novel and inventive technological solution to a technological problem, it may be seen as changing the nature of the computer as a whole and render the entire computer patentable, though not the program itself as a discrete element of the computer.

The Federal Court of Canada historically rejected the patentability of business methods; however, it issued a landmark decision involving Amazon's 'one-click' method of purchase and a patent was issued in 2013 by the Canadian Intellectual Property Office in respect of this method characterised as a business process. Regulatory guidelines have since been published with respect to patent applications in respect of business method inventions, especially as they relate to computer-implemented systems.

Living organisms are generally not protectable by patents in Canada.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

No specific legislation governs trade secrets or know-how. Parties must therefore rely on common law tort claims or contractual undertakings to protect know-how from unauthorised disclosure or use.

Although there is no comprehensive definition under Canadian law, a trade secret is generally recognised by Canadian courts as a right of property consisting of a mechanism, tool, process, compound, pattern, device or compilation of information that is known to one person and that gives that person a benefit or advantage. The essence of a trade secret is the quality of secrecy that surrounds it. A trade secret is protected through the creation of a fiduciary obligation on the recipient of confidential information not to disclose that information or misappropriate it for his or her own benefit. This is accomplished by means of written confidentiality or non-disclosure agreements and the creation of a fiduciary relationship between the owner of the trade secret and the recipient of the confidential information.

Know-how is a form of confidential information that licensees will receive from licensors as an integral part of the relationship. One of the most important aspects of a licence relationship is the imparting of confidential information to a licensee that gives that business an advantage over its competitors in a particular industry or market. It is imperative that the confidential information is clearly identified so that if the relationship is terminated, the former licensee is under no misapprehension as to what constitutes confidential information and is aware that it cannot be used or disclosed. The legal consequences of a confidentiality breach should also be clearly stipulated in a licence or trade secret agreement.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

The law allows a licensor to restrict disclosure by the licensee as long as the fiduciary relationship with the recipient of the confidential information exists both before and after termination of the licence agreement. It is recommended that third parties that are not privy to the licence agreement enter into a confidentiality or non-disclosure agreement with the disclosing party.

The law makes no reference to improvements to which the licensee may have contributed. It is recommended that this aspect be dealt with on a contractual basis between the parties.

19 What constitutes copyright in your jurisdiction and how can it be protected?

Copyright consists of the exclusive right of an owner of copyright to reproduce a work in any substantial form and arises upon the creation of a work in a fixed form; it may subsist in artistic, literary and musical works. The author of a work is deemed to be the owner of copyright unless the work was created in the course of employment or assigned to another in writing.

A licensor may own copyright in business plans, the design aspects of a trademark, manuals, publicity, promotional materials, design of premises and similar concepts. Although registration of copyright is not mandatory, it is recommended to create a presumption of the existence of copyright and of ownership in the name of the registered owner.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

To consolidate ownership in the hands of the licensor regarding the subject matter of the licence that has been created within the scope and during the term of the licence, and thereafter as applicable, such a provision is advisable. This will avoid uncertainty and potential disputes regarding ownership and may assist in clarifying enforcement clauses.

A waiver of moral rights by the individual authors is also recommended. Moral rights are recognised in Canada and, although such rights can be waived in writing, they cannot be assigned.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

There is no published case law under which a Canadian court has denied the validity of a perpetual software licence. However, case law has held that agreements of a different nature than a pure software licence, without a specified duration, are generally terminable upon reasonable notice, even without cause.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

There are import requirements and restrictions affecting a variety of Canadian products that require permits, authorisations and examinations. Moreover, the Export and Import Permits Act (Canada) permits the establishment of an Import Control List and an Export Control List, which list a variety of software pertaining to various categories of goods for which an export permit is required. There are also various other federal and provincial legislative requirements that must be complied with prior to consumer distribution, such as consumer packaging and labelling requirements, consumer protection and French language requirements in Quebec.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

Determination of the ownership of improvements and modifications is generally governed by the express wording of the licence agreement. In Canada, it is for licence agreements to provide that ownership of all improvements and modifications reverts back to the licensor.

There is no legal entitlement to upgrades, new releases or bug fixes in the absence of a contractual agreement.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

The practice of a software licensor including a process or routine to disable, or causing unauthorised access to disable, erase or otherwise affect the licensed software (eg, through 'time bombs' or 'Trojan Horses'), may be considered to constitute a 'computer program that is activated by a third party without a user's consent,' within the meaning of Canada's Anti-Spam Law. As described in more detail in question 26, where software that may be activated by a third party without the user's knowledge is installed on a user's device, this aspect of the software must be adequately disclosed and its functions properly described prior to the software being installed on the user's device. The user's consent must also be obtained prior to installation.

Additionally, it is questionable as to whether this practice is permitted under the civil law of Quebec. Section 342.1 of the Criminal Code (Canada) also prohibits the interception of any function of a computer system and may also apply to automatic set-offs.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

To date, Canadian courts do not appear to have decisively opined over this particular issue, hence the importance of dealing with liability issues associated with the performance of the software directly in the software licence agreement. It is unusual for a licensor to warrant that the licensed software will run error-free, but most licensors will warrant that the licensed software will conform to all published specifications and may agree to fix and repair any glitches that do not conform within a specific time period. Further, most licensors will attempt to limit their liability for damages in the software licence agreement.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

Canada's Anti-Spam Law (CASL) prohibits the installation of computer programs, software, updates and upgrades on another person's computer system in the course of a commercial activity, unless express consent is obtained in advance from the owner or an authorised user of the computer system in accordance with the requirements and formalities prescribed by CASL. The concept of commercial activity is defined broadly as 'any transaction, act or conduct or any regular course of conduct that is of a commercial character, whether or not the person who carries it out does so in the expectation of profit.'

CASL provides for supplementary disclosure requirements in connection with programs and applications that collect personal information; interfere with a user's control of the device; change or interfere with the user's settings, preferences or commands without their knowledge; change or interfere with data stored on a device in a way that obstructs, interrupts or interferes with the user's access to the data; cause a computer system to connect to or send messages to other computer systems without the user's authorisation; or install programs that may be activated by a third party without a user's knowledge. In these cases, the installer must clearly and prominently describe to a user what the program does in relation to those functions and why it does it, as well as describe to the user the impact of those functions on the operations of the computer system. These requirements would also apply where software or an application includes functionalities that collect information from the user's device in unexpected ways. If a

sufficient description of any such functionality is not provided prior to obtaining a user's consent for installation, the consent will not be valid for purposes of CASL.

Certain types of programs and data are exempt from CASL's application as users are considered to have consented to their installation (owing to browser settings, their comprehension of a product's functionalities, etc) such as cookies, html, javascript, bug fixes and operating systems or other programs that are executable through another program in respect of which consent has already been obtained.

CASL violations can result in civil lawsuits, administrative penalties up to a maximum of C\$1 million for individuals and C\$10 million for businesses and personal liability for officers and directors who knowingly participate in violations.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

Canadian courts do not appear to have dealt with the issue of enforceability or applicability of these terms and conditions, although the legal community in Canada generally views such public licences as being enforceable to the extent that the facts disclose awareness by the users of the existence of such a licence prior to use of the open source software, given that proceeding with such awareness may be tantamount to consent. However, a host of issues are raised by open source software, which remain unresolved by Canadian courts.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

While there are no general restrictions of this nature, the sale of certain products is regulated (eg, liquor), which may result in the licensor not being legally permitted to collect royalties on their sale. Other restrictions may apply where the royalties or fees are to be paid in respect of professional services (eg, medical and certain other professions) by a member of a professional or regulated order for such services, who are generally prohibited from sharing revenues earned from their professional activities with anyone who is not a member in good standing of the same order.

As regards interest for late payments, where the parties fail to set out an interest rate in their agreement or where a stipulated rate does not comply with the requirements of the Interest Act (Canada) (eg, an interest rate must be expressed as an annual rate, or on an annualised basis, to be enforceable), the Interest Act imposes an interest rate of 5 per cent per annum. Additionally, the Criminal Code (Canada) precludes a party from requiring interest payments that yield an effective annualised interest rate in excess of 60 per cent. Interest is broadly defined under the Criminal Code to include any fee, penalty, charge, etc, for failing to make payment as and when required.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

There are no general restrictions of this nature, except for the reporting mechanism under the Proceeds of Crime and Terrorist Financing Act (Canada) pursuant to which certain monetary transactions surpassing prescribed thresholds must be automatically reported to the Financial Transactions Reports Analysis Centre of Canada.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

When a foreign licensor deals directly with a Canadian licensee at arm's length, without involvement in the licensee's operations and without having a permanent establishment in Canada, the foreign licensor will only be taxed on initial licence fees, royalties or rental income earned in Canada, which is characterised as passive income

and subject to a withholding tax. The withholding tax rate is usually 25 per cent where there is no tax treaty between Canada and the licensor's country of residence, and is often reduced to 10 per cent if a tax treaty exists. The licensee is statutorily required to remit the withholding tax directly to fiscal authorities in Canada, failing which it incurs primary liability to them.

If a foreign licensor carries on business in Canada directly through a branch or a division or is otherwise involved in the operations of its licensees, its business income resulting from its operations in Canada may be taxable on a net income basis, payable at the time when such income is accrued.

Passive income earned in Canada by a foreign licensor may qualify for a foreign tax credit, subject to the existence and particular provisions of the tax treaty in force between Canada and the licensor's country of residence.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

While the parties to a licensing agreement are free to choose the currency of payment and the rules of conversion from one currency to another, the Currency Act (Canada) prohibits Canadian courts from rendering judgments in any currency other than Canadian currency.

A contractual indemnity related to exchange rate fluctuations would be enforceable insofar as its payment is required to be made in Canadian dollars, as calculated given the exchange rate at a contractually specified time.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Part VIII of the Competition Act (Canada) contains many restricted practices, including price maintenance, exclusive dealing, tied selling, market restrictions and abuse of dominant position. The practices set out in Part VIII of the Competition Act are not criminally prohibited as is the case for fraud, collusions or conspiracies, but are subject to review by the Competition Tribunal pursuant to an investigation of the commissioner of competition. The Competition Tribunal may make an order prohibiting a party from engaging in conduct that contravenes these provisions.

These practices are problematic where the licensor is a dominant participant in a particular market, or where the conduct is widespread and where the practice impedes entry or expansion of a participant or a product in a market or has another exclusionary effect whereby competition is or is likely to be lessened substantially.

Where the parties are affiliated, exclusive dealing restrictions are not applicable. Affiliates may include agreements whereby the licensor grants trademarks or trade-name rights to the licensee in respect of a product, provided that, inter alia, the licensee has multiple sources of supply for that product.

Price discrimination and promotional allowances, through discounts, rebates, allowances, price concessions or other advantages, remain an offence where a licensor of a product (ie, not a service) discriminates in the supply of same between competitor licensees with similar purchases in quality and quantity. Volume discounts, however, may be permitted under the Competition Act.

Price maintenance and refusal to deal are penal offences under the Competition Act. No person may by agreement, threat, promise or any like means attempt directly or indirectly to influence upward or discourage the reduction of a price of a product sold in Canada. Setting ceiling prices, however, may be an acceptable practice under the Act. If an application is made by the commissioner of competition, pursuant to the price maintenance provision in Part VIII of the Competition Act, no criminal proceedings may be commenced on the basis of facts that are the same or substantially the same as those on the basis of which the commissioner sought the order under Part VIII.

Section 32 of the Competition Act provides for special remedies that are specific to intellectual property. The section provides that the Federal Court may make an order to declare void a section or the entirety of a licence, restrain a person from exercising all of the terms of the licence, direct the grant of additional licences, direct the relevant

registrations to be expunged or amended or impose any other measures deemed necessary in the circumstances, where use has been made of the exclusive rights conferred by patent, trademark or copyright so as to:

- limit, unduly, the facilities for transporting, producing, manufacturing, supplying, storing or dealing in any article;
- restrain or injure, unduly, trade or commerce in relation to any article;
- prevent, limit or lessen, unduly, the manufacture or production of any article or unreasonably enhance the price thereof; or
- prevent or lessen, unduly, competition in the production, manufacture, sale or transport of an article.

However, the Competition Bureau's policies provide that it will not seek such an order if an appropriate remedy is available under the relevant intellectual property statute.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

There are no other legal restrictions in respect of duration, exclusivity, internet sales, grant-back provisions (irrespective of whether such grant-back provisions are effected with or without consideration) and other similar restrictions, other than those contained in the Competition Act and indicated in question 32.

Non-competition covenants are civil in nature and, therefore, fall within the legislative jurisdiction of the provinces. In general, non-competition covenants are sustained by courts where they are reasonable as to the scope of restricted activity, the duration and the geographical area covered. If unreasonable, courts have generally not rewritten such clauses but have struck them down in their entirety. While a handful of cases have recognised the possibility of reading down these restrictive contractual provisions so as to make them enforceable, it remains unlikely that these cases would find universal application.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

Intellectual property rights grant the owners of said rights the unilateral right to exclude others from using their IP for a certain period of time. Therefore, in principle, the mere exercise of intellectual property rights cannot be held to be anticompetitive, no matter to what degree competition is affected, otherwise the purpose of intellectual property rights would effectively be compromised and the economic, cultural and social benefits attached to such rights could be negatively affected, thereby reducing incentives for innovation and creativity. Nonetheless, the Competition Act may apply to agreements or arrangements based on intellectual property rights, such as licensing agreements, where the competitive harms are derived from such an agreement or arrangement. The Competition Act may therefore apply to limit the manner in which an intellectual property owner may license the intellectual property and to whom, but will not affect the fundamental right of the intellectual property owner to exercise its rights conferred by intellectual property law. An example of the application of the Competition Act to an agreement or arrangement based on intellectual property rights would be where an intellectual property owner licenses the intellectual property to another party that would otherwise have been a competitor without such an arrangement, and the arrangement creates, enhances or maintains market power. Another example would be if a licensor ties a non-proprietary product to a product covered by intellectual property, with a view to extending the market power conferred by the intellectual property right beyond the term of protection granted by law. Furthermore, any person or entity that systematically acquires intellectual property rights in order to control a market and then refuses to license the rights to others could be found to be exercising anti-competitive behaviour if such a strategy ultimately lessens or prevents competition in markets associated with such rights.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are legal, enforceable and commonly used. Insurance coverage for the protection of a foreign licensor is also available in support of an indemnification provision with respect to acts and omissions of the licensee.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

The parties may generally agree to waive or limit certain types of material compensatory damages.

However, disclaimers and limitations of liability, while generally valid and binding under the Civil Code of Quebec, will not be enforceable with respect to gross negligence, wilful misconduct and bodily harm. Under common law, such disclaimers and limitations may be invalidated in circumstances where they are deemed unconscionable, unfair or unreasonable. Further, such covenants are civil in nature, thus the mechanisms of the law and its reach may differ from province to province.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

Canadian law does not generally impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship, or require the payment of an indemnity or other form of compensation upon termination or non-renewal. However, both civil law in Quebec and the common law elsewhere in Canada generally prohibit termination of any contractual relationship based on an immaterial default. In addition, while not constituting a compensation or indemnity for the exercise of termination rights, both legal systems require that reasonable prior notice be given by a party wishing to terminate a contract with an indefinite term. Furthermore, Canada does not have commercial agency laws as that term is understood elsewhere in the world.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

In the absence of express contractual provisions addressing this issue, it would seem that if a master licensee loses all of its rights under the master licence agreement, whether by termination or expiration, the master licensee concurrently loses its right to sub-licence, and therefore, such termination or expiration of the master licence agreement should automatically result in termination of the sub-licence agreement granted by the master licensee. However, given that there is some divergence of opinion on this matter, it would be advisable to ensure that the master licensee includes a provision in its sub-licence agreements expressly addressing the desired outcome. Nevertheless, the ultimate enforceability of a contractual provision in the sub-licence agreement against the master licensor cannot be assured unless the master licensor explicitly agrees to such a provision.

Update and trends

Another important amendment to Canadian trademark law, in addition to that discussed at question 10, is the expansion of the definition of 'trademark' to include non-traditional marks such as sounds, scents, tastes and colours. If the mark consists exclusively or primarily of such marks, the amendments provide that an applicant must furnish the Registrar with evidence that the trademark is distinctive. The amendment to the definition of what constitutes a trademark was enacted in order to reflect article 15 of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) to which Canada must give effect as a WTO member.

Although sound marks are not explicitly provided for under current trademark law, Canada has already accepted the registration of certain sound marks such as Metro Goldwyn Mayer's infamous roaring lion. When it comes to senses such as scents, tastes and colours, it is more likely that they will be given trademark protection only if the sense is used in association with a specific shape, symbol or sign.

These amendments will bring Canada in line with international treaties and other developed countries, many of which have already adopted a more expansive definition of a trademark.

This amendment is set to come into effect in 2018.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

The Bankruptcy and Insolvency Act (Canada) grants the right to a trustee to realise the value of any and all assets that a bankrupt may have in its patrimony; a licence may be construed as a valuable asset that the trustee will wish to protect by staying any attempt of the licensor to terminate it. Canadian case law had previously permitted careful drafting of default clauses, which allowed the termination of a licence agreement before the bankrupt licensee's rights fell in the patrimony of the trustee; however, the Bankruptcy and Insolvency Act as well as to the Companies Creditors' Arrangement Act (Canada) now prevent a licensor from terminating a licence solely because the licensee files a notice of intention to file a proposal, files a proposal or fails to pay royalties, or other payments of a similar nature, in respect of a period preceding the filing of a notice of intention to file a proposal or the filing of a proposal, subject to the licensee continuing to perform all of its obligations under the licence agreement. However, a licensor is not prohibited from requiring payment of royalties, or other payments of a similar nature, which become due after the filing of a notice of intention to file a proposal or the filing of a proposal.

Section 84.1 of the Bankruptcy and Insolvency Act grants a trustee the right to apply to court for an order assigning the rights and obligations of a bankrupt under an agreement. In deciding whether to make

the order, the court must consider, among other factors, whether the person to whom the agreement is to be assigned can perform the obligations incumbent on it pursuant to the agreement and whether it is appropriate to assign the agreement to said person. Such an order may be made in some cases despite any contractual restrictions applicable to assignments without the co-contracting party's consent. If a trustee opts to apply to court under section 84.1, he or she would be required to provide notice to every party to the agreement he or she wishes to assign, and as such the parties would have the right to oppose the application for assignment. This provision has yet to be tested by courts in a licensing context, and as such it remains to be seen whether this provision can be utilised by trustees to assign a licence agreement.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

The parties are free to choose the laws that will govern their relationship. However, laws or provisions of public order in Canada may not be set aside by the choice of the law of another jurisdiction.

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

The parties may contractually agree to arbitrate their disputes instead of resorting to Canadian courts, provided that the parties' intent to exclude all recourse to civil courts (other than for injunctive or equitable relief) is manifest in the agreement. The parties are also free to agree to the arbitration venue. On the other hand, collective arbitration has yet to be seen in Canada and Canadian statutory law does not provide for such a mechanism. While the subject has not been addressed by Canadian courts, contractually stipulating that each claim must be arbitrated individually and cannot be joined with claims of other licensees remains advisable for the time being. Furthermore, the Canadian jurisdictional division creates a significant barrier to the introduction of collective arbitration as provincial courts may only assert jurisdiction over a party present in their jurisdiction and each province has its own legislative framework.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

A final monetary and conclusive judgment on the merits is usually enforced by Canadian courts. In Quebec, the situation is slightly more complex as defendants have the right to raise defences that may have been available in the initial action, before an order enforcing the foreign judgment is made.



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Certain provinces, such as British Columbia and Ontario, have enacted legislation that provides a simplified procedure for registering and enforcing foreign judgments and arbitration awards. Arbitration awards are more readily recognised throughout the country as Canada is party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available in all provinces and may be granted on an interim, interlocutory or permanent basis. The right to seek relief is always within the discretion of the court and cannot be waived.

Chile

Claudio Magliona and Carlos Araya

García Magliona y Cia Abogados

Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

There are no restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor, nor are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office.

Notwithstanding the aforesaid, and although there are no special requirements for this purpose, the general requirements established by Chilean laws to incorporate different kinds of companies must be complied with.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

The different forms of licence arrangements are as follows:

- software licensing and licensing of other copyright protected works, such as photographs, books, musical compositions and cinematographic works. The licence may only be granted on patrimonial rights; moral rights are only transferable by succession on death;
- licensing of industrial property rights;
- licence applications for registration of industrial property rights being processed;
- non-voluntary licensing of patents for invention, regulated by article 51 of Law No. 19,039 on industrial property (Industrial Property Law). These licences may be granted, among other causes, when their granting is justified by the authority for reasons of extreme urgency or public health;
- licensing of pending or registered utility models;
- licensing of pending or registered industrial designs and drawings; and
- licensing of pending or registered designs or topographies of integrated circuits.

The licensing of industrial property rights must include at least a private document signed before a notary and recorded in an abstract in a marginal note of the respective record in the National Institute of Industrial Property (INAPI).

Licence applications for registration of industrial property rights being processed require a private document signed before a notary, which is recorded in the corresponding file in the INAPI.

Trademarks are indivisible and none of the elements of the distinctive sign covered by the title may be separately transferred.

The total or partial transfer of copyright must be made through a public or private instrument authorised by a notary and must be entered in the register of intellectual property within 60 days from the conclusion of the contract.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Chilean law does not regulate in any special way the creation or terms of an international licensing relationship. There are no restrictions on royalty rates or on other rates.

- What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

The licensor has no obligation to provide information to the licensee prior to the conclusion of the international licence contract.

A licensor's rights must be registered or have registration pending with the INAPI before a licence may be granted to a licensee in an agreement (for example, a trademark, a patent, etc). Such registration requirement is not necessary when the object of a licence agreement is a copyrighted work (such as software, song, video, etc).

- Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?**

Chilean law does not provide special rules regarding international licensing agreements. Said contracts are governed by the autonomy of the contracting parties and the general principles of law, including that of good faith. Article 1,546 of the Chilean Civil Code states that contracts must be performed in good faith and that they bind not only what is stated in them but all things deriving from the nature of the obligation or pertaining to it by law or custom. Likewise, article 707 of the Chilean Civil Code states that good faith is presumed.

Our courts cannot rewrite contractual provisions. Article 1,545 of the Chilean Civil Code states that the contract is a law for the contracting parties that may only be voided by mutual consent or legal causes.

- Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?**

Chilean legislation does not distinguish between licences and franchises. Franchises are regulated under the general contract legislation (the Civil Code) and the Intellectual Property Law No. 17,336 (the Intellectual Property Law) or the Industrial Property Law when applicable in connection with licences.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Yes, Chile is a party to the Paris Convention for the Protection of Industrial Property, the Patent Cooperation Treaty and the Agreement on Trade-Related Aspects of Intellectual Property Rights.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

The licensee may be prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations.

Infringement of the clause containing said prohibition is punishable as breach of the contract, thereby creating the obligation to compensate damages resulting from said failure. Notwithstanding the aforesaid, the establishment of such provision shall not prevent the intervention of the courts if it is required by the licensee.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The declaration of invalidity or expiry of the registration of intellectual property rights will not affect per se the existence of a licensing agreement, nor the obligation to pay royalties. However, the usual practice would be to include in licensing agreements a provision establishing that the loss of validity or expiry of the right that is the subject of the licensing agreement constitutes a breach of said agreement, whose consequence will be the termination of the agreement and of the obligation to pay royalties. If the licence does not remain in effect, the licensee could freely compete, subject to the Fair Competition Principles Act.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

There are no specific requirements to be fulfilled by foreign nationals prior to the registration of their intellectual or industrial property rights.

Industrial property rights are acquired by registration in the register of industrial property of the INAPI, regardless of the nationality of the holder of the right.

On the other hand, intellectual property rights are acquired by the mere fact of the creation of a work, regardless of its author's nationality.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Intellectual property rights that are not registered can be licensed in Chile. However, the licensee will not have the legal protection of intellectual property laws, but only the protection of the agreement, until it is registered in accordance with the law, if the object of the licence agreement is an industrial property right. The registration is not necessary when the object of the licence agreement is a copyrighted work (such as software, song, video, etc).

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

In the case of a licence of industrial property right, the Industrial Property Law requires that it must include at least a private instrument signed before a notary and recorded in an abstract in a marginal note in the respective record in the INAPI.

Licence applications for registration of industrial property rights being processed require a private document signed before a notary, which is recorded in the corresponding file in the INAPI.

Copyright licensing must specifically state the rights granted to the licensee, establish the term of duration, the remuneration and form of

payment, the minimum or maximum number of shows, the territory of its application and any limitation imposed by the licensor.

The total or partial transfer of copyright must be made through a public or private instrument authorised by a notary and must be entered in the register of intellectual property within 60 days from the conclusion of the contract.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

The licensor or licensee may institute proceedings against a third party for infringement of intellectual property rights if it has thus been contractually established by the parties and pursuant to what the parties have stipulated in the agreement.

According to what has been stated, it is possible to contractually prohibit the licensee from instituting said proceedings. Infringement of said prohibition is punishable as breach of the contract, thereby creating the obligation to compensate damages resulting from said failure. Notwithstanding the aforesaid, the establishment of such provision shall not prevent the intervention of the courts if it is required by the licensee.

At present, the bill to reform the Industrial Property Law, Bulletin No. 8907-03 filed by the government by Message No. 060-361, dated 24 April 2013, (Bill) recognises the right of the exclusive licensee to initiate legal proceedings in order to protect their rights as if they were the owner. On the other hand, the non-exclusive licensee requires authorisation from the licensor.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

The licensee's right to sub-license the trademark will depend on what has been stipulated in the licence agreement. The right to sub-license must be established in the agreement as it is not warranted by law.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Chile is a 'first to file' jurisdiction. However, the law provides the possibility to cancel a patent when the party obtaining the patent is not its inventor or assignee.

Chilean law only permits the licensing of already registered patents or patents in the process of being registered.

The Bill includes the legal recognition of the inventor's right to the patent. The Bill includes an action for patent infringement, through which the inventor is entitled to request the transfer of the application or registration without it losing its novelty.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

Software may not be protected by patents. It is protected by the Intellectual Property Law.

Business methods or processes may not be protected by patents as they are not considered inventions.

Plants and animals may not be protected by patents, except micro-organisms meeting general patentability conditions.

Plant varieties may not be protected by patents. However, the right of the breeder of a new plant variety is protected by Law No. 19,342 on rights of breeders of new plant varieties.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

The Industrial Property Law defines trade secrets as all knowledge about products or industrial processes whose confidentiality constitutes an improvement, progress or competitive advantage for its owner.

The Bill includes a new definition of 'trade secrets' and establishes what acts constitute violation of a trade secret. Also, the Bill extends the definition from the industrial area to the productive and commercial area.

Infringement of a trade secret is punishable as a criminal violation and infringement of industrial property rights. Notwithstanding the aforesaid, it is a matter of debate whether said trade secret regulation is of a restricted nature or if it is generally to be applied.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

According to our industrial property legislation, the acquisition, disclosure or exploitation of trade secrets without the holder's authorisation, as well as disclosure of trade secrets by those parties who have had legitimate access to them but who have a duty of confidentiality, will constitute an infringement of the trade secret, provided said infringement has been made with the intention of obtaining benefit for the party itself or any other third party, or harming its owner.

In accordance with what has been stated, it is possible to establish said restrictions in the agreement.

It has to be pointed out that it is being discussed whether said regulations will be generally applied in Chilean legislation.

No distinctions are made with respect to improvements to which the licensee may have contributed.

19 What constitutes copyright in your jurisdiction and how can it be protected?

The Intellectual Property Law protects the rights that the authors of intellectual works of the literary, artistic and scientific domain acquire through the sole fact of their creation, whatever their form of expression, and the neighbouring rights it establishes.

The following, among others, are especially protected:

- books, brochures, articles and written documents, whatever their form and nature, including encyclopaedias, guidebooks, dictionaries, anthologies and compilations of all kinds;
- conferences, speeches, lectures, memoirs, comments and works of the same kind, both in their oral as well as in their written or recorded versions;
- dramatic, dramatic-musical and theatrical work in general, and likewise choreographic and pantomimic works, whose development has been set down in writing or in another form;
- musical compositions, with or without lyrics;
- radio or television adaptations of any literary production, the works originally produced by radio or television, and also the corresponding librettos and scripts;
- newspapers, magazines or other publications of the same kind;
- photographs, engravings and lithography;
- cinematographic works;
- architectural projects, sketches and models, and mapping systems;
- geographical or armillary spheres, and also plastic works related to geography, topography or any other science and, in general, audio-visual material;
- paintings, drawings, illustrations and similar works;
- sculptures and similar figurative works of art, even though they may be applied to industry, provided their artistic value may be assessed separately from the industrial character of the object to which they are incorporated;
- scenographic sketches and the respective sceneries if the author is the sketch artist;
- adaptations, translations and other transformations, if they have been authorised by the author of the original work if it does not belong to the public domain;
- videograms and slide shows;

- computer programs, whatever their mode or form of expression, and source programs or object programs, including their preparatory documents, technical descriptions and user's manuals;
- data collection or collection of other materials, in typewritten or any other form, which owing to the selection or disposition of their contents, constitute creations of an intellectual nature. This protection does not include data or materials themselves and is to be understood as notwithstanding any subsisting copyright regarding the data or material included in the collection; and
- textile designs or models.

The law establishes a series of civil and criminal measures aimed at protecting intellectual property from infringements.

Within the framework of proceedings for copyright infringement, the court may, at the plaintiff's request, decree one of the measures mentioned below.

Injunctions

The court may, at any stage during the proceedings, order the following injunctions:

- to immediately suspend the sale, circulation, display, performance, representation or any other form of allegedly infringing exploitation;
- to prohibit executing or performing any acts and contracts on certain properties, including the prohibition to advertise or promote the products or services that are the subject matter of the alleged infringement;
- to retain allegedly unlawful copies;
- to retain or seize any materials, machinery and implements that have been used for the production of allegedly unlawful copies or for the allegedly infringing activity, where necessary to prevent further infringement;
- to remove or dispose of any devices used in the unauthorised public communication, unless the alleged infringer guarantees that he or she shall not resume the infringing activity;
- to appoint one or more inspectors; and
- to attach the product of recitation, representation, reproduction or performance, until reaching such applicable copyright amount as reasonably established by the court.

Damages

The court may order the infringer to pay damages.

Additional penalties

The court, upon making effective the payment for damages, may order, at the request of the affected party, the delivery, sale or destruction of the copies of the work that have been manufactured or put into circulation infringing his or her rights, as likewise that of the material that serves exclusively for the illegal manufacture of copies of the work and the seizure of the product of the recitation, representation, reproduction or performance.

Publication

The court may order, at the request of the affected party, the publication of the decision, with or without stating the grounds for it, in a newspaper of the affected party's choice, at the expense of the infringer.

Criminal actions

Copyright infringement can also be pursued with criminal actions sanctioned with imprisonment and fines.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

The licensee may only exercise the rights expressly granted in the licence agreement. The contributions made by the licensee and authorised by the licence agreement will belong to the licensee as author of a derivative work.

Software licensing

- 21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?**

Chilean law has not expressly recognised the validity of 'perpetual' software licences, but neither has it prohibited them. It is possible, therefore, to enter into licence agreements of a perpetual nature.

- 22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?**

Chilean legislation does not include prerequisites for granting a software licence. There are no restrictions for software import or export.

- 23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?**

Modifications and improvements to the licensed software will belong to their author in the event that said use has been authorised in the licence agreement.

The law does not contain a provision imposing on the software licensor the duty to provide bug fixes, upgrades and new releases to its licensees. Therefore, in the absence of a contractual clause authorising such improvements, the licensee may not obtain bug fixes, upgrades or new releases. However, for the proper function of the software, it is advisable that the software licensor provides to its licensees the aforementioned improvements.

- 24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?**

The law does not regulate or prohibit the inclusion of said processes or routines. However, it is advisable to establish the possibility of performing said acts in the licence agreement.

- 25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?**

Our courts have not recognised that software is not inherently error-free.

- 26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?**

There are no legal restrictions in the Chilean jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with user's control of the device. In general, updates, upgrades, additional programs or features or functions or changes on the software are matters of regulation in the licence agreement.

- 27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?**

Chilean courts have not restricted the enforceability or applicability of the terms and conditions of licences for open source software. There are no legal developments in the Chilean jurisdiction concerning the use of open source software.

Royalties and other payments, currency conversion and taxes

- 28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?**

Chilean legislation does not have laws specially regulating the nature, amount or frequency of payment of royalties or other fees in an international licence relationship.

- 29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?**

In Chile, there is freedom to transfer and remit currency. The formal exchange market entity through which the remittance is made must report it to the Chilean Central Bank in accordance with the Compendium of Foreign Exchange Regulation.

- 30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?**

Thirty per cent tax will be applied on the total amount paid, without any deduction, to individuals not domiciled or resident in the country, for the use, enjoyment or exploitation of trademarks, patents, formulae and other similar services, whether they consist of royalties or any other form of remuneration, excluding the amounts corresponding to the payment of tangible property placed in the country up to a generally accepted cost. However, the applicable tax rate will be reduced to 15 per cent concerning the amounts corresponding to use, enjoyment or exploitation of patents of invention, utility models, industrial drawings and designs, layout or topography designs of integrated circuits and new plant varieties, according to the definitions and specifications of the Industrial Property Law and the Law Regulating Rights of Breeders of New Plant Varieties, as appropriate. Likewise, a 15 per cent tax will be applied to amounts corresponding to the use, enjoyment or operation of computer programs, which include the set of instructions to be used directly or indirectly in a computer or processor in order to make or obtain a certain process or result, contained in cassette, floppy disk, disc, magnetic tape or any other material support or means, according to the definition or specifications mentioned in the Intellectual Property Law. In the event that certain royalties and consultancies are considered as unproductive or non-essential for the economic development of the country, the president of Chile, having previously received a report from the Chilean Corporation for Production Development and the Executive Committee of the Chilean Central Bank, may raise said tax to 80 per cent.

The local taxpayer obliged to withhold said tax must certify these circumstances and make an affidavit, in the manner and time set by the Internal Revenue Service through a resolution.

The amounts paid for the use of publishing rights or copyrights will be affected at a rate of 15 per cent.

International double taxation may be avoided through international conventions on double taxation. As stated, tax must be withheld by the licensee.

- 31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?**

Judgments can be rendered by Chilean courts in a foreign currency.

Competition law issues

- 32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?**

Law No. 20,169 on unfair competition and Supreme Decree No. 211 of the Ministry of Economy, Development and Reconstruction on protection of free competition regulate, promote and defend free competition in markets, also prohibiting and penalising anticompetitive acts. Among the actions restricting free competition are agreements on pricing, production constraints, exclusion of competitors, acts affecting the outcome of bidding processes, assigning market shares, etc.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

See question 12. Besides said requirements, there are no other restrictions, and the parties may freely stipulate the provisions of the contract, notwithstanding the rights of the licensor and licensee.

There are no laws regulating non-compete agreements with the licensor.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

The Law No. 20.169 on Unfair Competition establishes that the scope of unfair competition conducts may extend to those regulated on the Intellectual Property Law (Law No. 17336) and Industrial Property Law (Law No. 19039). In that sense, according to the article 4 of the Law No. 20.169, certain uses of intellectual property may be deemed as unfair competition. For example: (i) any acts that unduly exploits the goodwill of others, leading to confuse in services, products or trademarks of others; or (ii) the use of trademarks or the dissemination of false statements that may lead to a confusion on the products or services. In general, certain uses or abuses of intellectual property may be deemed as unfair competition according to the Chilean Unfair Competition Law. Pay for delay is not regulated in Chile.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are commonly used in Chilean laws and are enforceable.

There does not appear to be any special insurance for the protection of a foreign licensor, and it shall therefore be necessary to determine on a case-by-case basis whether insurance companies will provide insurance with said features.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

The parties may contractually waive or limit certain types of damages, and also establish limitations of liability that will generally be enforceable. Notwithstanding the aforesaid, wilful misconduct or gross negligence cannot be condoned in advance, or any damage arising from them. Any disclaimer and limitation of liability explicitly established in the contract may be enforceable in courts.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

The law does not establish special conditions or limit the possibility to terminate or not to renew an international licensing relationship. Likewise, it does not require the payment of an indemnity for the termination or non-renewal of said contracts. Therefore, the termination of a licensing agreement will be subject to what has been agreed by the parties in the contract and to the general rules on said matter.

However, the licensor must be very careful about the expectations it creates or communicates to the licensee as they may lead the court to deem that an indemnification must be paid to the licensee in the event of the licensor terminating the agreement.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

Sub-licensing will terminate as the sub-licensor may not grant more rights than those it has. The sub-licensing contract may not remain in force beyond the term of the licensing agreement as it is accessory to the licensing agreement. A contractual provision addressing the termination or expiration of a licence may be enforceable in courts.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

The declaration of bankruptcy of the licensee will prevent it from meeting the obligations ensuing from the contracts signed by it, as the administration of its property will pass to a third party designated by the court. Therefore, the licensor must compete with the other creditors of the licensee to verify its claim in the bankruptcy of the licensee according to the priorities established by law.

The licensee's bankruptcy will have no effect concerning the obligations of the sub-licensee and the bankruptcy trustee may demand their compliance on behalf of the bankrupt licensee.

In an international licensing agreement, the parties may agree to terminate the contract prior to the bankruptcy of the licensee, that is to say, the initiation of bankruptcy proceedings or insolvency of the licensee may be established as grounds for early termination of the contract.

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Governing law and dispute resolution**40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?**

The parties are free to agree on the jurisdiction governing the agreement.

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

The parties are free to agree to arbitrate the resolution of disputes arising in relation to the contract. They may also decide whether the arbitration proceedings will be conducted in Chile or in a foreign jurisdiction.

Under Chilean law, arbitration is international if:

- the parties have, at the time of entering into the arbitration agreement, their establishments or primary residence in different countries;
- the place of arbitration is situated outside the country in which the parties have their establishments or primary residence;
- the place of performance of a substantial part of the obligations or the place with which the object of the dispute is most closely connected are located outside the country in which the parties have their establishments or primary residence; or
- the parties have agreed that the subject matter of the arbitration agreement relates to more than one country.

The class actions for consumer law in Chile are public order rules not subject to arbitration. Therefore, class actions in Chile are viewed by courts.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

The judgment from a foreign court will have, in Chile, the enforceability granted by treaties existing on the subject. If there are no such treaties, it will have the enforceability that said countries acknowledge to judgments from Chilean courts. Thus, if in the country of origin of the judgment, judgments of Chilean courts are not complied with, said judgment will not be applicable in Chile. In the event that the aforesaid rules are not applicable, judgments dictated by foreign courts will be granted the same validity as if they had been dictated by Chilean courts, provided they are not contrary to Chilean law, do not oppose themselves to Chilean jurisdiction, that the party against whom the judgment is invoked has been notified of the action and that the judgment is enforceable in accordance with the laws of its country of origin.

The aforesaid rules will apply to judgments pronounced by an arbitrator and their authenticity must be recorded through the approval issued by a superior court of the country where the judgment was issued.

Chile is party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

The Industrial Property Law allows for injunctive relief in article 112. On the other hand, the Intellectual Property Law contemplates the existence of injunctive relief in article 85D.

The parties may not contractually waive injunctive relief as, being procedure rules, they are considered public order rules that cannot be contractually waived in advance of the trial in which they must be decreed.

China

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Overview

- 1 Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?

The establishment of a foreign-invested entity in China can be categorised in two forms: a wholly foreign-owned enterprise or a sino-foreign joint venture. The formation must be subject to the approval of the Ministry of Foreign Trade and Economic Cooperation of the People's Republic of China.

The State Council authorises the people's government of a province, an autonomous region, or a municipality directly under the central government or a relevant department of the State Council to approve the formation of an equity joint venture, provided that the following conditions are met:

- The equity joint venture's total amount of investment is within the limit of the power to approve investment as prescribed by the State Council, and the source of capital to be contributed by the Chinese party has been established.
- No additional allocation of raw materials by the state will be needed, and the national balance in fuel, power, transportation and export quotas in foreign trade, among other things, will not be affected.
- To enter into a licence agreement with Chinese parties, foreign licensors are not required to establish a subsidiary or branch office. In fact, most foreign licensors do not incorporate an independent business entity in China for the sole purpose of entering into a licence agreement.

Kinds of licences

- 2 Identify the different forms of licence arrangements that exist in your jurisdiction.

In the jurisdiction of China, technology transfer agreements include assignment of patent rights or rights to apply for patents, patent licensing and assignment of technical know-how. Presently, Chinese legislation does not provide clear definitions for the above agreements.

This notwithstanding, the Regulations of the People's Republic of China on Administration of Import and Export of Technologies states that where a right to implement patents is licensed, the licensor is obliged to act in accordance with the agreement, enable the licensee to implement the patent, transfer the technological information relevant to the patent implementation and provide the necessary technical guidance.

On a side note, it is instructive to attach importance to contracts of copyright licensing and trademark licensing. In the light of public interest or public health, the Patent Law of the People's Republic of China lays down the legal framework for compulsory licensing for patent implementation, whereas the Copyright Law of the People's Republic of China sets out the legal licensing mechanisms.

Law affecting international licensing

- 3 Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.

Parties to an international technology licensing agreement shall not insert any restrictive clause, illegally monopolise technology, impair technological progress or infringe upon the technological achievements of others.

According to the judicial interpretation, 'illegally monopolising technology and impairing technological progress' refers to:

- restricting one party from making new research and development on the basis of the contractual subject technology or restricting this party from using the improved technology, or the conditions for both parties to exchange the improved technologies with each other being not reciprocal, including such circumstances as requiring one party to gratuitously provide the other party with the improved technology, to transfer the improved technology to the other party non-reciprocally, to gratuitously and solely occupy, or jointly own the intellectual property of the improved technology;
- restricting one party from obtaining, from other origins, the technology similar to or competitive against that of the technology provider;
- impeding one party's sufficient exploitation of the contractual subject technology in a reasonable way pursuant to the market demands, including unreasonably restricting the quantity, varieties, price, sales channel or export market of the contractual subject technology exploited by technology acceptor in an obvious way to produce products or to provide services;
- requiring the technology acceptor to accept attached conditions dispensable for exploiting the technology, including purchasing dispensable technologies, raw materials, products, equipment, services or accepting dispensable persons, etc;
- unreasonably restricting the channels or origins for the technology acceptor to purchase raw materials, parts and components, products or equipment, etc; and
- prohibiting the technology acceptor from making objections to the effectiveness of the intellectual property of the contractual subject technology, or attaching conditions to the objections made.

In addition, article 29 of the Regulations of the People's Republic of China on the Administration of Import and Export of Technologies provides that a technology import contract shall not contain any of the following restrictive clauses:

- requiring the receiving party to accept any additional condition unnecessary for the technology import, including the purchase of any unnecessary technology, raw material, product, equipment or service;
- requiring the receiving party to pay an exploitation fee for a technology when the term of validity of the patent right has expired or the patent right of which has been invalidated, or to undertake other relevant obligations;
- restricting the receiving party from improving the technology supplied by the supplying party, or restricting the receiving party from using the improved technology;

- restricting the receiving party from obtaining technology similar to that supplied by the supplying party from other sources or from obtaining a competing technology;
- unduly restricting the receiving party from purchasing raw material, parts and components, products or equipment from other channels or sources;
- unduly restricting the quantity, variety, or sales price of the products the receiving party produces; or
- unduly restricting the receiving party from utilising the channel for exporting products manufactured using the imported technology.

4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

Should a patent owner license another to implement the patent, upon the effectuation of the contract, within three months the parties should apply to the Patent Administration Department under the State Council for recordation.

Nevertheless, for a patent licence agreement it is at the discretion of the parties whether the contract is to be submitted for recordation. Recordation, or the lack thereof, does not affect the binding force of the contract.

By contrast, concerning the licensing of rights to implement patents, the parties will not be able to enforce the contract against an innocent third party in the event that they failed to submit the contract for recordation in due course.

Besides, in relation to the import and export of technologies that can be freely imported or exported in China, the parties must register the contract to the Ministry of Foreign Trade and Economic Cooperation under the State Council, and submit the following documents: (i) an application for registration of the technology import and export contract; (ii) a copy of the technology import and export contract; and (iii) a certificate that verifies the legal standing of the contracting parties.

5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

The parties contracting to establish an international technology licensing agreement shall act in good faith, abide by the principle of fairness and refrain from the abuse of rights, as envisaged by articles 5, 6 and 7 of the Contract Law of the People's Republic of China.

Moreover, the signing of an international technology licensing agreement shall also adhere to the Anti-Monopoly Law of the People's Republic of China. The contract shall not contain clauses that seek to eliminate or restrict competition. In this respect, the parties are also advised to observe the Provisions of the State Administration for Industry and Commerce on Prohibiting the Abuse of Intellectual Property Rights to Preclude or Restrict Competition.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

In the jurisdiction of China, import and export of technology can be categorised into technologies that are prohibited from import and export, technologies that are restricted in being imported and exported, and technologies that can be freely imported and exported.

A licence is required for import and export of technologies that are subject to restrictions, whereas contracts concerning the import and export of technologies that are free from prohibition or restriction must be submitted for recordation.

Should the contract be modified, the parties shall recomplete the registration procedures for technology that can be freely imported and exported, or re-apply for permission from the Ministry of Foreign Trade and Economic Cooperation under the State Council for technology that is subject to restrictions.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Yes.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

Article 29 of the Regulations of the People's Republic of China on Administration of Import and Export of Technologies provides that a technology import contract must not compel the receiving party to pay an exploitation fee for a technology when the term of validity of the patent right has expired or the patent right of which has been invalidated, or to undertake other relevant obligations.

Further, under article 10 of the Interpretation of the Supreme People's Court concerning Some Issues on Application of Law for the Trial of Cases on Disputes over Technology Contracts, a clause that prohibits the technology acceptor from making objections to the effectiveness of the intellectual property of the contractual subject technology, or attaching conditions to the objections made, shall belong to 'illegally monopolising technology and impairing technological progress' mentioned in article 329 of the Contract Law of the People's Republic of China.

As such, a contractual agreement to prohibit a licensee from contesting the validity of a foreign licensor's intellectual property rights or registrations is not permitted under Chinese law.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The effect of a licence contract of rights to implement patents is limited to the term of validity of the patent right. When the term of validity expires or the patent is declared invalid, the patent right owner shall not license another to implement the patent.

The patent rightholder has no right to claim a licence fee on the basis of an expired or invalidated patent. For a licence agreement that is signed and in effect, the licensor can apply to the People's Court for modification or termination of the contract in accordance with the relevant Chinese laws and judicial practice.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

In general, a foreign national is not required to show evidence of use or original registration to register intellectual property (Trademark Registration, Patent Application, etc) in China. However, should the patent applicant or trademark registerer request a priority right, he or she will have to make a written declaration, and submit within three months a copy of the first original patent application or trademark registration.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

For trademarks, use of the mark is not a prerequisite for registration. However, the owner of the registered mark has an exclusive right to use the mark. Normally, a mark must first be registered before being subjected to a licensing agreement.

On the other hand, the acquisition of copyrights does not depend on registration. Copyright holders are permitted to license or transfer the interest according to the law.

Lastly, to enjoy patent rights in China, the interested party must apply to and register with the approval authority. However, if the patent owner is licensing a Chinese business entity to produce or sell the relevant goods in other countries, the licensor is not required to apply the patent in China.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

The licensor of a technology import agreement should ensure that he or she is the lawful owner of the technology or has the right of transfer. The licensee is obliged to use the technology in accordance with the terms of the contract.

Should a third party allege an accusation of infringement, the licensee should put the licensor on immediate notice, whom shall upon notice assist the licensee with the dispute. The licensee should use the technology in a manner consistent with the terms of the contract, whereas the licensor shall bear the responsibility arising from the infringement of third parties' lawful interest.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

Under Chinese law, owners or licensors of foreign intellectual property rights are entitled a legal standing to initiate legal proceedings based on acts of infringement by a third party. A licensee to whom an exclusive right to use is granted can also file a lawsuit to the People's Court. The licensee does not need further approval from the licensor. Both parties to a sole licensing contract are permitted to initiate proceedings jointly; or in alternative, the licensee can file a lawsuit alone when the licensor chooses not to be involved. For a general licensing contract, the licensee will need explicit approval from the licensor before going to the court. In the event that the parties had a separate agreement, it is permissible for the contract to preclude the licensee from initiating legal proceedings.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

The Trademark Law of the People's Republic of China does not prohibit sub-licensing of a registered trademark. Therefore, the licensee is allowed to sub-license a registered mark, provided that in the initial licensing agreement the licensee is granted an explicit right to sub-license the mark.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

The patent application system in China features a first-to-file principle. Thus, if there are two or more applicants filing the same invention for a patent, the patent will be granted to the applicant who filed earlier in time.

In the meantime, a patent owner and a licensee are permitted to make a licensing agreement on the patent application. As far as the parties coming to an agreement, Chinese law does not prohibit the licensing of patent application.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

Computer programs

According to Chapter 9 of the Patent Examination Guidelines, provided that the solution of an invention application invokes the execution of computer programs in order to solve technical problems, and reflects technical means in conformity with the laws of nature by computers running programs to control and possess external or internal objects, and thus technical effects in conformity with the laws of nature are obtained, the solution is a technical solution as defined under article 2.2 of the Patent Law of the People's Republic of China, and is the subject matter of patent protection.

Business processes or methods

The rules or methods of intellectual activity are not warranted patent protection in China. Presently, business methods as a form of intellectual activity do not enjoy patent protection. However, if the business methods are applied in a computer program, whereas the conditions set out in Chapter 9 of the Patent Examination Guidelines are met, the computer program can be a subject matter of patent protection.

Living organisms

The Patent Law of the People's Republic of China does not cover specific animal or plant species. Living organisms can be protected by laws other than the patent law. For instance, new varieties of plants are afforded protection under the Regulation of the People's Republic of China on Protection of New Varieties of Plants.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

Article 10 of the Anti-Unfair Competition Law of the People's Republic of China provides protection for trade secrets, whereas the law defines trade secrets as the utilised technical information and business information which is unknown by the public, which may create business interests or profit for its legal owners, and also is maintained in secrecy by its legal owners.

Article 25 of the regulation further states that the court shall order an infringing party to cease the illegal activity. The court may impose upon the infringing party a punitive fine between 10,000 and 200,000 yuan.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

Article 26 of the Regulations of the People's Republic of China on Administration of Import and Export of Technologies provides that the receiving and supplying parties to a technology import contract shall be under an obligation to keep confidential the undisclosed part of the technology the supplying party has supplied within the scope of confidentiality and time limit thereof as agreed in the contract.

Notwithstanding, within the time of confidentiality, the obligation of one party to confidentiality shall terminate immediately after the confidential technology is disclosed for reasons not of his or her own.

Further, article 27 of the regulation states that within the term of validity of a contract for technology import, an achievement made in improving the technology concerned belongs to the party making the improvement.

19 What constitutes copyright in your jurisdiction and how can it be protected?

According to article 3 of the Copyright Law of the People's Republic of China, works that enjoy copyright in accordance with law shall include works of literature, art, natural science, social science, engineering technology and the like made in the following forms:

- written works;
- oral works;
- musical, dramatic, quyi, choreographic and acrobatic art works;
- works of fine art and architecture;
- photographic works;
- cinematographic works and works created in a way similar to cinematography;
- drawings of engineering designs and product designs, maps, sketches and other graphic works as well as model works; and
- other works as provided in laws and administrative regulations.

The above works shall enjoy copyright at the time of completion. The law relating to the protection of copyrights applies regardless of whether the work is registered.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

Yes, it is advisable.

It is recommended that a licensor obtain an assignment from the licensee in respect of the licence of any artwork, software improvements or other works that the licensee may have contributed to.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

In the jurisdiction of China, the licence to use software is subject to a limitation period, which the licensing term shall not exceed. To be more precise, copyright of a software comes into existence on the date on which the development of the software is completed.

A natural person's copyright in software shall be protected for a period consisting of the natural person's lifetime and 50 years after his or her death, and ending on 31 December of the 50th year after the natural person's death. Where the software is jointly developed, such period shall end on 31 December of the 50th year after the death of the last surviving natural person.

The copyright in software of a legal person or other organisation shall be protected for a period of 50 years, ending on 31 December of the 50th year after the first publication of the software, except that if such software is not published within 50 years from the date of completion of its development, it shall no longer be protected under these regulations.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

Chinese law does not compel computer programs to comply with any legal requirement prior to the granting of software licences. However, the licence agreement must abide by the Anti-Monopoly Law of the People's Republic of China, and refrain from causing an elimination or restriction of competition. In the meantime, part or all of the licensed software shall not use a technology that is prohibited from export and import under Regulations of the People's Republic of China on Administration of Import and Export of Technologies, whereas approval must be sought if part or all of the software uses a technology that is restricted in import and export.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

Article 27 of the Regulations of the People's Republic of China on Administration of Import and Export of Technologies states that within the term of validity of a contract for technology import, an achievement made in improving the technology concerned belongs to the party making the improvement. The parties may nonetheless insert into the contract a separate clause on the matter.

There is no clear regulation obliging a licensor to fix any defects of the licensed software, or to provide upgrades and new releases in the absence of a contractual provision to that effect. This notwithstanding, in the view of the principles of good faith and fairness, the licensor is advised to assist the licensee in order to accomplish the objectives that the contract envisions.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

Software, or computer programs, are guaranteed protection under the Copyright Law of the People's Republic of China. The licensor of a software is permitted to use the relevant measures to protect its copyright interest.

However, without the permission from the copyright owner or obligee related to the copyright, intentionally avoiding or destroying the

technical measures taken by the obligee on his works, sound recordings or video recordings, etc, to protect the copyright or the rights related to the copyright, except where otherwise provided in laws or administrative regulations, shall be regarded as an act of infringement under the law.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

To date, there is no such precedent in Chinese jurisdiction. In theory, it is inferable that the licensor is under a duty to inform the licensee or users of the necessary risks. That is, for instance, a duty to inform users of the risk of infringement and sham involved with the use of a dating software. The underlying rationale is that users ought not suffer infringement owing to the lack of awareness.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

There is no clear regulation in China with respect to software that interferes with the users' control of the device without the prior consent or knowledge of the user. However, the bottom line is that the software shall not acquire or distribute personal information of users, and thereby infringe the privacy rights of the users.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

To date, there exists neither legislation nor juridical interpretation pertaining to the terms and conditions of public licences for open source software.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

To this date, there is no legislation in China that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

According to the Regulation of the People's Republic of China on Foreign Exchange Administration, international payments in foreign exchange and the transfer of foreign exchange under the current items shall not be subject to any state control or restriction.

However, the foreign exchange expenditure under the current items shall be paid by an institution with its self-owned foreign exchange upon valid documents or with the foreign exchange purchased from any financial institution operating the foreign exchange sale or settlement business in accordance with the administrative provisions of the foreign exchange administrative department of the State Council on the payment and purchase of foreign exchange.

The regulation also imposes specific legal requirements upon the individuals and financial institutions operating foreign exchange business or investment in China.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

A foreign licensor in China shall be taxed on its income when certain conditions are met. According to the Individual Income Tax Law of the

People's Republic of China, article 1 provides that an individual who has a domicile in the territory of China or who has no domicile but has stayed in the territory of China for one year or more shall pay individual income tax in accordance with the provisions of this law for his incomes obtained in or outside the territory of China. In other words, foreign licensors that have a long-term stay in China are taxed on their world-wide income.

An individual who has no domicile and does not stay in the territory of China or who has no domicile but has stayed in the territory of China for less than one year shall pay individual income tax in accordance with the provisions of this law on his or her income obtained in the territory of China.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor owing to currency exchange fluctuations be enforceable?

The law does not oblige the People's Court to render a judgment in Chinese yuan. The People's Court has the discretion to render a judgment in a foreign currency.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Practices that potentially restrict trade are regulated by the Anti-Monopoly Law of the People's Republic of China as well as the Provisions of the State Administration for Industry and Commerce on Prohibiting the Abuse of Intellectual Property Rights to Preclude or Restrict Competition.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

Chinese law does not impose any legal restriction in respect of the duration of licence agreements and internet sales prohibition.

Non-competition restrictions are in general prohibited. The prohibited terms include: (i) restricting the receiving party from improving the technology supplied by the supplying party, or restricting the receiving party from using the improved technology; (ii) restricting the receiving party from obtaining technology similar to that supplied by the supplying party from other sources or from obtaining a competing technology; and (iii) unduly restricting the receiving party from purchasing raw material, parts and components, products or equipment from other channels or sources.

Relating to grant-back provisions, a business operator in a dominant market position is not permitted to request the other contracting party to provide exclusive grant-backs.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

While the latest amendment of the Patent Law of the People's Republic of China is yet to be finalised and published, the new law will prohibit acts that constitute an abuse of patent rights.

Meanwhile, the Anti-Monopoly Law of the People's Republic of China forbids standard essential patent (SEP) holders from receiving a licence fee in violation of their FRAND obligations. In practice, the People's Court and the National Development and Reform Commission have already dealt with cases in relation to a SEP licence fee.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Insertion of a compensatory clause into the contract is common in China, provided that the clause is enforceable and consistent with the mandatory provisions in the laws of the People's Republic of China.

However, there is no civil responsibility insurance designed specifically for a foreign licensor in China.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

It is possible for the parties to agree on a waiver or limitation on certain types of damage in the contract. Disclaimers or exemplary clauses shall be valid provided that they are enforceable and consistent with the mandatory provisions in the laws of the People's Republic of China.

According to article 53 of the Contract Law of the People's Republic of China, two exception clauses in a contract shall be null and void: (i) those that cause personal injury to the other party; and (ii) those that cause property damages to the other party as result of deliberate intent or gross negligence.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

Relating to the termination or non-renewal of an international licensing agreement, the laws of the People's Republic of China does not specify any particular conditions or restrictions. Meanwhile, it appears that there is no illustrative cases on the subject matter. In any event, licence agreement is a form of contract and therefore is governed by the Contract Law of the People's Republic of China.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

The parties are free to agree on whether the licensee is permitted to sub-licence. If the contract is silent on the matter, it shall in general be inferred that the licensee is not authorised to sub-licence. Should the licensee engage with a sub-licence agreement without the authorisation of the licensor, it will likely constitute a breach of the contract. If the contract provides for the issue of sub-licensing without the approval from the licensor, the licensor may seek remedies from the licensee on the basis of breach according to the corresponding contractual terms.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

Bankruptcy of the licensee does not affect the validity of the licence agreement, nor does it in any way influence the legal relationship between the parties. The parties may nonetheless agree to bring the contract to an end prior to the bankruptcy of the licensee.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

In an international licensing arrangement the parties are free to choose the governing jurisdiction. According to article 126 of the Contract Law of the People's Republic of China, parties to a foreign-related contract may select the applicable law for resolution of a contractual dispute, except as otherwise provided by law. Where parties to the foreign-related contract fail to select the applicable law, the contract shall be governed by the law of the country with the closest connection thereto. There are no other laws or mandatory provisions governing an international licensing arrangement.

- 41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.**

The parties are free to agree to arbitration of their disputes, and the arbitration is not required to be conducted in the jurisdiction of the People's Republic of China. Parties to the contract that involves a foreign element may apply to an arbitration institution in China or elsewhere.

- 42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?**

The People's Court accepts applications to recognise and enforce a court judgment from a foreign jurisdiction. The court shall render judgments in accordance with the international treaties to which the People's Republic of China is a party, or with respect to the principle of reciprocity, recognise and enforce foreign judgments that are consistent with the basic principles of the laws of the People's Republic of China, the state sovereignty, national security and public interest.

As for arbitral awards, the People's Republic of China is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

- 43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?**

Injunctive measures prior to and during a trial are available in the jurisdiction of China. A party may agree to waive contractually the right to exercise such injunctive relief or the entitlement to claim specific categories of damages. Notwithstanding, in practice the waiver clauses are likely to be ruled invalid by the People's Court.



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Overview

- 1 **Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

In general, there are no restrictions in respect of title to, and ownership of, shares or business assets. However, should a person be in the extremely narrow business sector perceived as putting at risk an important national interest, such as in the business of banned dual-use goods export, that person would be well advised, under the Monitoring Act, to seek formal permission from the Ministry of Employment and Economy.

Any business established and registered under the laws of Finland is regarded as Finnish irrespective of ownership. However, the registration and running of a branch of a foreign entity from outside of the European Economic Area (EEA) requires the consent of the Companies Registry. Generally, the consent is readily granted.

If the foreign licensor runs a Finnish subsidiary, at least one of the directors, including the managing director (ie, CEO, president), must be a resident of the EEA, unless the Companies Registry grants an exemption. The auditor should be a resident authorised or approved public accountant. In the event that there is no person within the EEA entitled to sign in the name of the subsidiary or the branch, there must be (in Finland) a registered agent for service of process.

A foreign licensor may enter into a licence agreement without establishing a subsidiary or a branch.

Kinds of licences

- 2 **Identify the different forms of licence arrangements that exist in your jurisdiction.**

One can license any right enabling the owner to exclude third parties from using, offering or publishing the subject of such right. Thus, the subject of licensing is varied. It covers the entire span of intellectual property rights (IPRs), including quasi-intellectual property rights, such as semiconductors and plant variety rights, as well as rights not protected by specific IPRs, such as know-how and even works representing an act of unfair imitation. Licensing also frequently appears as an important element in franchise, research and development, original equipment manufacturers and outsourcing agreements. Further, licensing may be a significant element in merchandising and advertising agreements and agreements on multi-media formats and concepts.

Law affecting international licensing

- 3 **Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Where Finnish law is applicable, general contract law affects the criteria for the formation and the validity of an international licensing relationship. One should be heedful of the provisions on invalidity and adjustment of contract terms, including the statutory test of reasonableness

(see question 5), the provisions of the Unfair Business Practices Act on marketing and the handling of business secrets and technical instructions, the price-fixing prohibition of the Competition Restrictions Act as well as the European antitrust rules. Otherwise legislation does not, generally, directly regulate licensing. Yet legislation does indirectly regulate licensing, and affects certain terms, such as royalty rates and service fees. If in excess of the fair market value, pursuant to tax law tracing back to the EU Convention on the elimination of double taxation in connection with the adjustment of profits of associated enterprises (90/436/EEC), royalties or service fees may, for the purpose of taxation, not be eligible for deduction by the Finnish subsidiary or the equivalent associated enterprise. However, in a number of clearly distinct cases a party can be obliged and forced to grant a licence (compulsory licence). Apart from the regime enabling the European Court of Justice to order that certain products protected under a patent be supplied, there are no requirements that certain products be purchased locally.

- 4 **What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

There are no specific pre-contractual disclosure requirements. Nevertheless the legal doctrine that states that contractual parties owe each other a duty of loyalty is widely acknowledged in case law. Accordingly, there is a kind of general contractual good faith and fair dealing requirement of avoiding misrepresentations that induce the opposite party to enter into a contract. In some circumstances, silence may amount to misrepresentation. From the above one may infer that a licensor should, as a general rule, use his or her best endeavours to disclose any and all matters that may affect the decision of the licensee to accept the licence. The contents and scope of this duty depend on the facts of each case, with regard to the knowledge and experience of the potential licensee. On the other hand, the licensee is under a duty of care, prompting him or her to obtain, at his or her own initiative, information available to him or her, such as about the general market conditions and their impact on the licence contemplated. Accordingly, in the event the licensor infringes the right of the prospective licensee to have pre-contractual information by rendering to him or her, for example, a too-favourable or otherwise untrue impression of the licence, this may constitute a ground for rescinding or terminating the contract.

There is no statutory requirement that the licence should be registered with any authorities. However, where the licensor or the licensee desires that a licence be recorded by the relevant registry, such non-mandatory recording is possible. Recording makes the licence effective against third parties, such as creditors.

- 5 **Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?**

Yes, both statutory obligations and resultant court practice may affect an international licensing relationship (see question 3). The duty of

loyalty continues throughout the duration of the contractual relationship, and it is considered accentuated in long-term relationships.

In this context, section 36 of the Contracts Act should be highlighted. This provision stipulates that a contract term or condition may be adjusted or set aside if such term proves unreasonable having regard to the contents of the contract, the circumstances prevailing at the time the contract was entered into and subsequent circumstances in general, such as the relative bargaining strength of the parties (ie, it is a kind of a statutory test of reasonableness).

Another provision expressing the principle of good faith and fair dealing, under section 33 of the Contracts Act, stipulates that a transaction that would otherwise be binding is not enforceable if it was entered into under circumstances that would make it incompatible with honour and good faith for anyone knowing of those circumstances to invoke the transaction, and the person to whom the transaction was directed must be presumed to have known of the circumstances.

When construing licensing agreements, courts frequently apply generally accepted principles of contract construction, such as the rule on interpretation against the drafter (in dubio contra stipulatorem). In order to interpret or supplement domestic law, courts and arbitral tribunals may occasionally apply other codified principles, such as the UNIDROIT Principles of International Commercial Contracts.

A licence agreement is not in itself likely to be regarded as one between parties of unequal bargaining strength. Accordingly, it would not as such be subjected to more onerous rules of interpretation than other contracts between businesses. Neither would a licence agreement, as such, allow courts to redress perceived inequalities or rewrite provisions viewed as being abusive. This is also true as to standard forms that are in frequent use (micro-businesses are no exception).

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Yes, the law does distinguish between licences and franchises. The distinction is, however, to be made on the merits of each case. Since there is no special legislation on either type of arrangement, the courts are likely to hold each type of agreement as one of its own kind, such as designating a franchise agreement a mingled type of an agreement and a licensing agreement, depending on the licensed subject, either as such or as a technology transfer agreement.

Court practice suggests that where the bargaining strength of the licensor and the licensee are found to be unequal, the temptation increases to allow courts to redress perceived inequalities or to rewrite provisions viewed as being abusive.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Finland is party to all of these conventions.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

Generally speaking, yes. A no-challenge clause imposing on the licensee an obligation not to contest the validity of his or her licensor's IPRs is not *prima facie* prohibited and is likely to be held effective.

Accordingly, the licensee's action to the contrary is likely to be considered a breach to be sanctioned against pursuant to the agreement, and failing any provisions in that respect, as a breach, which, depending on circumstances, may entitle the licensor to terminate the agreement.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

Given that the IPR was registered and then expired or proved invalid, unless the licence entitles the licensee to enjoy further rights the licence agreement must be regarded as elapsed. Accordingly, unless otherwise provided for in the licence agreement, if the IPR is invalidated or the

registration has expired, the licensee may be well advised to claim the agreement null and the resultant relief as to royalties at least insofar as the value of the IPR can be considered lost. Alternatively, the licensee may claim that he or she is entitled to terminate the agreement owing to a breach severe enough for repudiation.

However, unless the licensor, at the time of entering into the agreement, knew of the invalidity or had a well-founded reason to fear such contingency and failed to make a mention of it to the licensee, it does not seem likely that he or she would be held liable in damages. It seems unlikely that a licensee challenging the validity of the registration could recover any royalty paid prior to the adjudication of invalidity and at least not prior to the challenge. Therefore, the licensor may wish additionally to include in his or her agreement:

- payment for maintenance of a licensed rights clause for covering costs for maintaining both the registration (where required) and the validity of IPRs;
- a royalty after contract expiry clause should know-how continue to benefit the licensee's operations after contract expiry; and
- a momentum clause entitling the licensor to be paid fees for, for example, technical information and assistance already provided or, at the risk of subsequent licensee-incited contract adjustment, simply a disclaimer of liability for maintenance of IPRs, or a force majeure or relief clause to the same effect.

The licensee may wish to contain in the agreement an express warranty of title and a non-infringement clause.

If the licence does not remain in effect, unless bound by a post-contract undertaking not to compete, the licensee can freely compete.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

No, not generally. Owing to widely reciprocal relaxation of requirements as to original registration and evidence of use, only rarely does a foreign national not carrying on business in Finland have to demonstrate that his or her trademark is registered in his or her jurisdiction or made use of. Nevertheless, a foreign applicant with neither domicile nor registered office in Finland must appoint a local agent to represent the applicant in all matters concerning the application.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Yes. Know-how and trade secrets, whether alone or in connection with other IPRs, say patents, are frequently the subject of licences. Exclusive rights for a trademark may be acquired, even without registration, after the mark has become established. A trade symbol is considered established if it has become generally known in the appropriate business or consumer circles in Finland as a symbol specific to the goods or services of its proprietor.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

There are no particular requirements for the validity of an intellectual property licence. Strictly speaking, a valid offer and acceptance is enough, whether oral or written. If there is a usage between business-people to the effect that silence is enough for the expression of will, silence may even be enough for rendering the acceptance required. If there are co-owners of an IPR, of course, the concurrence of each owner is required.

No recording is required for rendering the licence opposable to third parties. However, any trademark licence not entered in the register shall not affect a third party who has obtained the trademark in good faith.

A security interest by means of pledge can generally be instituted by the recorded owner of the IPR. This is true as to registered trademarks as well as to patents, utility models, registered designs, layout designs and plant varieties. However, unregistered trademarks, trade names and copyrights cannot be used as security. A valid pledge of a right to a registered trademark requires a writ of pledge and entry into the register of trademarks. Execution can be levied on a trademark only

if the pledge is entered into the register. Although as to the pledge of a patent right there are no formal requirements inter partes for being regarded as binding in relation to third parties, the pledge needs to be entered into the register of patents. In these respects, it should be noted that there are some slight differences as to other pledgeable IPRs.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

There are no obstacles for the foreign owner or licensor of an IPR, whether one with exclusive, sole or non-exclusive rights, to institute proceedings for infringement without joining the licensee as party to the proceedings.

Instituting proceedings by an IPR licensee always requires that the licensee demonstrates that he or she has informed the owner of the IPR of his or her claim against the infringer. Generally, the person last recorded as owner is deemed as lawful proprietor for the purposes of lawsuits and other matters concerning the IPR.

Always subject to the statutory test of reasonableness, the licensee can agree not to institute proceedings against an infringer.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

No; unless otherwise agreed, the trademark or service mark licensee must not sub-license the use of the mark to a third party.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Finland is, primarily, a 'first to invent' jurisdiction. The right to the patent arises from the act of inventing. Any one individual having made an invention susceptible to industrial application, or his or her successor in title, is entitled, on application, to a patent. Accordingly, if two or more persons have made an invention as a result of action in concert, the patent is granted jointly to them. However, if two or more persons have independently of each other made an invention, the right to the patent belongs to the person who is first to file for patent.

There should be no obstacle for a foreign licensor to license the use of an invention subject to a patent application but in respect of which the patent has not been issued in our jurisdiction.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

Statutorily, software 'as such' is not considered an invention. This is deemed not to foreclose registration provided the computer program solves a technical problem or merely contains some technical aspect.

Business processes are, generally, not patentable. Statutorily, schemes, rules and methods for doing business are not considered inventions.

The patentability of living organisms is extremely circumscribed. With respect to patenting elements of the human body and animal varieties, Finland adheres strictly to the same principles as the rest of the EU. As to plant varieties, there is a special regime contained in the Act on Plant Varieties Rights.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

Yes, the concepts of trade secrets and know-how are fairly well defined. There is specific legislation governing trade secrets. Apart from the consequences of divulging trade secrets as contained in the Penal Code, there is a kind of code of conduct to be deduced from the Unfair

Business Practices Act the application of which, however, is somewhat narrow, and another, contained in the Employment Contracts Act, regarding the duty of an employee not to divulge any business or professional secrets of his or her employer.

From the Penal Code one may deduct a fairly legal definition of trade secrets to the effect that it is about information an entrepreneur keeps secret, the revelation of which would be apt to cause financial loss to him or her, or to another entrepreneur who has entrusted him or her with such information. As to know-how, there is no other statutory legal definition than the one contained in article 1(i) of the EU Regulation (EU) No. 316/2014 on block exemptions for technology transfer agreements. The result is that, since know-how generally is part of trade secrets it, accordingly, enjoys the legal protection of the latter. One is well advised to consider thoroughly defining both trade secrets and know-how.

Trade secrets and know-how are, generally, treated by the courts.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

Yes. Where information qualifies as trade secrets or know-how (ie, neither generally known nor easily accessible information) one can impose on the licensee a reasonable restriction on the exploitation.

Statutorily no distinction is made with respect to improvements to which the licensee may have contributed, nor can a distinction in court practice be found. We would, however, like to distinguish between, on the one hand, the situation where the parties have collaborated or acted in concert to make an improvement, and on the other, the situation where each of them has separately contributed to the achievement.

19 What constitutes copyright in your jurisdiction and how can it be protected?

Any artistic or literary work, independently originated by a human being, and of original character, expressed in any manner or form qualifies for copyright. However, this excludes, for example, inventions from the sphere of copyright. Also excluded are all but the tangible work itself, which means that one cannot claim copyright for the basic idea, theme or motif. The requirement fulfilled, copyright arises by virtue of itself. In respect of software and databases, sheer originality is enough. In Finland, copyright is not registered.

Copyright can be asserted, pursuant to the Copyright Act, over works of literary and artistic character, for example, fictional or descriptive representations in writing or speech, computer programs, databases and musical, dramatic, photographic, cinematographic or other works of art. Moreover, certain neighbouring rights are protected, such as performing artists, the producers of recordings of sounds and of images, the use of sound recordings for public performances and producers of catalogues.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

Yes. Since the licensee may obtain copyright in any work qualified for protection it is advisable to require the contractual assignment of copyright in the above-mentioned works. An alternative would, indeed, be a grant-back licence.

Further, subject to the above, software is qualified for protection.

Generally, any employee or subcontractor of the licensee can claim copyright in any work originated by such party. Therefore, it also is advisable to ensure that such parties assign, in advance, the copyright to the licensee for further assignment. This, however, does not pertain to software or databases, for which there are statutory provisions pursuant to which copyright to such software or databases, originated for fulfilling the duties of the employee, belong to the employer.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Statutory law does not deal directly with the issue of perpetual licences. As far as it is known, the issue of perpetual software licences has not yet been tested by the courts. However, while the validity of a contract made for eternity is recognised in the sense of indefinite duration, but subject to any contractual provisions governing termination, and failing such provisions, terminable upon reasonable notice, in the case of a software licence this is not necessarily likely to be the case.

Apart from the generally limited life span of the software and the statutory duration of the copyright, one is well advised to have regard to the fact that, quite distinct from licensing custom-made bespoke software, licensing non-exclusive off-the-shelf software products bears more similarity to a sale than to a licence. As to the latter, it is likely that the courts would be inclined to accept the perpetual software licence. Accordingly, it seems advisable, where possible, to avoid using the notion of a perpetual licence and instead attempt to define the duration.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

No statutory requirements apply as to the contractual grant of the licence. However, with respect to export, where software qualifies as, or is part of, a military or dual-use product, one has to take heed of the Finnish, EU and UN export control legislation. The same is true as to any financial restrictions and sanctions.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

The originator, generally, owns any improvements or modifications unless otherwise agreed. Another issue is whether the licensee is permitted to make modifications to the licensed program without infringing the licensor's copyright. It is worth mentioning that there are certain non-waivable statutory provisions to the effect that the licensee (with certain restrictions) is at liberty to make observations, study and test the operation of a computer program in order to ascertain the notions and principles behind the various details of the program and to reproduce and translate the source code to the extent required for achieving cooperability with other software.

In the absence of a contractual provision to the effect that the licensor is to provide its licensees bug fixes, upgrades or new releases, the software licensor is under no such obligation. However, where the licence provides for periodical renewals and periodical payment of royalty or service fees, the conclusion would be that the licensee may expect bug fixes, upgrades and new releases.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

Although there is no statutory hindrance for such processes or routines, it is not advised to include such mechanisms without the licensee's knowledge. So far, the statutory test of reasonableness has not been implemented as to the issue of including such properties in software of the licensee. In any case, where the licensor effectuates measures that may cause harm, damage or loss to the licensee, the licensor exposes himself or herself to claims of damages.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

Courts have neither entertained the issue of software being inherently error-free or not, nor have they determined the liability of licensors in connection with the performance of the licensed software. In jurisprudence, the opinion has been asserted that the Finnish Sale of Goods Act

can be applied by analogy to licensing of software. Accordingly, one should be able to hold a licensor liable for delivery of software that is not error-free, and thus the licensee should be able to claim correction and, should the licensor fail to correct the error, rectify the defect and claim damages, price reduction or, if the defect is of material character, terminate the agreement and claim damages as well. Nevertheless, the most likely approach would be that the court will apply the regime for liability and remedies contained in standard agreements frequently used in Finland. Consequently, this would generally result in the licensor assuming no liability for minor defects and that he or she would remedy the defect by means of rectification or redelivery, but with no liability for any costs, expenses or damage, whether consequential or not, suffered by the licensee. Nevertheless, in practice, bugs are rarely regarded as defects, and, therefore, the licensor will generally make the necessary corrections without additional charge.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

There are not, insofar as not to be inferred from the EU Data Protection Directive 95/46/EC or the Directive on privacy and electronic communications (2002/58/EC). Quite the contrary, under the Police Act, the police are encouraged, for the purpose of crime investigation, to apply for permission from court for using, among others, such software that, without the prior consent or knowledge of the user, interferes with the user's control of the device.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

In Finnish courts, the validity of open source licences has not yet been tested.

There have been no actual legal developments. The main principle that is generally recognised is that open source software is a method by which to produce and develop software by means of offering the public an opportunity to get acquainted with the source code and to remodel it for the needs of the user. Further, both the original software and the remodelled version may be used, reproduced and circulated. On the other hand, the licence by means of which the software is offered may well stipulate a duty to publicise any remodelling under the licence in order for the originator to exploit the improvements made by others.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

As a general rule, the parties' consent governs the nature, amount, manner and frequency of payments of royalties and other fees. The mandatory statutory exceptions are limited, chiefly, to those on an appropriate remuneration in respect of, on one hand, certain particular types of licence, such as compulsory licences (see question 3), and on the other, an employee's remuneration owing to an invention.

In addition, one is well advised to note that in the event that the licensee (or sub-licensee), exceptionally, is deemed an associated enterprise in terms of the 90/436/EEC Convention on the elimination of double taxation in connection with the adjustment of profits of associated enterprises, as implemented in 2007 into the Act on Tax Procedure, the arm's-length principle and the transfer pricing documentation duties have to be complied with in order to avoid tax consequences. Otherwise, there are no statutory restrictions on the amount of interest one can charge on overdue payments insofar as the overdue interest is not deemed unreasonable. Should that, however, be the case, one should note that any provision relating to the amount of consideration is deemed a contract term to which the statutory test of reasonableness may be applicable.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

Except for the purpose of taxation (see question 30) and emergency conditions, there are no restrictions or reporting requirements except for the applicable EU and UN financial sanctions and restrictions.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

In general, foreign businesses are taxed only on the income sourced in Finland, such as royalties, service fees and dividends paid by the licensee. In the case of royalties, the payer is assumed to collect the tax at source at a 20 per cent tax rate, or at such rate as defined in the applicable double tax treaty. To date, there are more than 100 such treaties addressing that issue.

However, should the foreign business have a permanent establishment (PE) in Finland, such as a branch, the foreign business will be liable to tax on all the income attributable to the PE, and also the income that has been received from abroad. Thus, dividends, interest, royalties and capital gains are included, but costs and expenses attributable to the business, such as interest, royalties and depreciation of assets are deducted.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

Yes, a judgment can be rendered in foreign currency. However, where payable in Finland the debtor ought to be permitted to pay in local currency (ie, the euro) pursuant to the current exchange rate. Generally, currency clauses are enforceable.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

In general, as an EU member, Finland is covered by EU competition law. Finnish antitrust law is no more restrictive and goes no further than the European equivalent (other thresholds and conditions may apply, however). Thus, any practice whose purpose is the restriction of trade is prohibited, provided that the licensing arrangement is of such character that competition rules are affected. In practice, all and any horizontal and vertical price fixing, passive sales restrictions, sharing of markets and output limitations between competitors are prohibited. Other restrictions, such as territorial exclusivity arrangements and sourcing restrictions between competitors, are prohibited merely where restricting competition to an appreciable extent. Unilateral conduct is caught only where the undertaking in question is in a dominant position (this requires a market share in excess of at least 40 per cent). Harmful conduct, such as predatory pricing, discrimination lacking objective justification, tying and refusal to deal on the part of dominant undertakings may be prohibited.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

As to duration, there are no restrictions, though the duration may have bearing on the status of being exempted from article 101(1) of the Treaty on the Functioning of the EU. Further, providing that the character of the arrangement makes the EU antitrust rules applicable, any of the above provisions may be subject to restrictions under competition rules. Accordingly:

Exclusivity in respect of the licensee himself or herself is permitted. However, unlike his or her active sales, the licensee must, in response to customer request, generally remain at liberty to serve customers wherever they are located in the EU (passive sales). This rule is, however, relaxed in respect of certain technology transfer agreements between non-competitors. The licensee's internet sales are treated as passive sale.

In respect of grant-back provisions, the duty to either assign or exclusively license to the licensor improvements that are severable may be considered restrictive practices and prohibited accordingly.

With regard to territorial and customer exclusivity, the above applies in respect of non-competition restrictions for the duration of the agreement. However, with respect to any non-competition prohibition effective subsequent to the expiration of the agreement, the non-compete obligation should be related to the object of the licence as well as the goods or services to be manufactured thereunder and, in addition, indispensable to protect technology transferred by the licensor. Nevertheless, under the Contracts Act, a non-compete clause may be considered either too restrictive or unreasonably limit the freedom of licensee and, therefore, regarded as non-binding. Accordingly, one should seriously consider whether a non-compete clause is required, and if so, its scope and duration.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

There has been one prominent case where court has held that certain abuses of intellectual property rights have been anticompetitive (Supreme Administrative Court # 2005:2527, docket 2715/2/03), and one dealing with the question on alleged anticompetitive contracting (Helsinki Court of Appeal #2008:2742, docket S 07/809).

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are both commonly used and generally enforceable. There may, however, be exceptions owing to failing the test of reasonableness as described in question 5.

Indemnity insurance is not very common but may be available, subject to a great number of limitations.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

In licence agreements, parties frequently contractually waive, disclaim or limit liability for indirect losses (ie, regarding incidental, consequential and other pure economic loss), such as losses owing to breach of a second contract sufficiently related to the licence agreement. This kind of exclusion may be coupled with an exception regarding losses sufficiently related to gross negligence or intent.

Simultaneously, or alternatively, there may be a fixed ceiling (eg, an amount or percentage of revenues of the licensee, royalties of licensor) for any damages or a liquidated damages clause often regarded as a penalty clause.

Also, parties frequently waive liability for any unforeseen circumstances resulting in losses and for liability if a claim is not made or an action not instituted within a certain period. Disclaimers of liability are generally enforceable unless, under the statutory test of reasonableness, it is regarded unconscionable to request enforcement (see question 5). This is the case if the disclaimer also relates to all and any liability.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

The answer to the first question is affirmative regarding termination, but not regarding non-renewal. Where termination qualifies as breach of contract, the other party can rely on entitlement to compensation for the losses sufficiently related to the termination. Subject to the

agreement being a pure licence agreement and not a mixed contract on commercial agency as well, there is no regime entitling either party to claim indemnity or compensation of the kind on which commercial agents can rely.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

Unless there is a commitment by the licensor to take over the role of his or her former licensee in relation to the sub-licensee, termination or expiration of the main licence will result in the cessation of exploiting the licence, including all rights appertaining thereto. The repercussions of the failure to deal with the effect of expiration or termination of the licence agreement on the sub-licence agreement would be extremely serious, not only to the licensor but to the licensee as well. A contractual provision addressing the issue of the consequences of termination on all parties concerned is likely to be enforceable in so far as it gets through the statutory test of reasonableness (see question 5).

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

In cases of bankruptcy, a general rule is that the principle of continuation of agreements precludes the discontinuation of the contract. This notwithstanding, contractual provision may be made to the effect that the licensor is permitted to terminate the licence agreement. Should the licensee be adjudicated bankrupt, a licence agreement is not necessarily declared as null and void. Although the bankruptcy estate has the right of subrogation, the licensor may be permitted to terminate the contract, where continuing the relationship with the bankruptcy estate would seem quite unconscionable, or because of well-founded reasons to believe that the estate shall not be able to fulfil its duties under the agreement. Nevertheless, should the estate utilise its right of subrogation, the aforesaid does not preclude the other party from reviewing the performance of the bankruptcy estate (or its assignee) to determine whether the performance will fail qualitatively or quantitatively. It is pertinent to note that the right of subrogation does not re-establish a contractual relationship already rescinded or otherwise discontinued. This means that, in general, a clause to the effect that non-payment permits rescission will allow the licensor to rescind the contract prior to the beginning of the bankruptcy of the licensee, not to say prior to anyone filing the petition for bankruptcy.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

No. Subject to article 3 of the Rome I Regulation (EC 593/2008), one can subject a licence agreement with a Finnish party to the law of a foreign country, or may elect a foreign law to be applicable to some certain separable portion of the licence agreement. Nevertheless, regarding the choice of a foreign law, whether or not accompanied by the choice of a foreign tribunal, be aware that it does not necessarily prejudice the application of domestic mandatory rules from which no derogation can be made, such as the rules of the law on consumer protection, product liability, labour and employment, personal data law, law of tenancy, law on restraints of competition, procedural rules as to IPRs and tax law.

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

Yes, the parties can contractually agree to the arbitration of their disputes instead of resorting to the courts. Arbitrations can be seated abroad. However, for the sake of enforcement, it is important provided that the seat of the arbitration is a signatory to the New York Convention.

Since you can resort to arbitration merely by agreement being in writing, concerning a present or future dispute, parties can agree not to have the procedures consolidated under one or more contracts.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

A court judgment or arbitral award from another jurisdiction is enforceable in Finland. However, the award needs to be recognised. This is dependent on whether the arbitration agreement on which the award has been founded fulfils the formal requirements, and it must not be contrary to Finnish public policy. The party against whom enforcement of an arbitral award is sought shall, in general, 'be heard'. Accordingly, should the party against whom enforcement is sought be able to demonstrate that one or more of the aforementioned obstacles exist, the award is not to be enforced. Finland is a party to the New York Convention.

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43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief as adjudicated by an ordinary court is available, but not by an arbitral tribunal. The procedure for seeking injunctive relief is regulated by the Code of Procedure 1734, Chapter 7 on precautionary measures.

Yes, the parties can waive their right to seek relief by way of injunction; at least, such contract is valid, inter partes, at pain of duty to compensate any act to the contrary.

A waiver of entitlement to claim specific categories of damages would amount to a clause on limitation of liability, and is generally enforceable. See question 36.

France

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Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

No specific restrictions or filing or regulatory review process apply to the establishment in France of a business entity or a joint venture by a foreign entity, except in some strategic areas where prior authorisation from the French administration is required (defence, energy supply, water supply, transportation networks and services, electronic communications and health protection). Moreover, except in these restricted areas, foreign investors are free to invest in France, subject only to a prior statistical declaration (this declaration must also be submitted when incorporating a company in France). Therefore, subject to the above, a foreign licensor or a joint venture involving a foreign licensor can freely establish a business entity in France, provided that it complies with the corporate rules applicable to the establishment of any business entity, including, without limitation, registration with the Trade and Companies Registry of the commercial court with jurisdiction over such business entity's corporate office.

There are no specific restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office in France. A licence agreement can freely be entered into between a foreign licensor and a French licensee, and be governed by French law.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

There is no legal definition of 'licence' under French law, but a licence arrangement is usually defined as the authorisation granted by the owner of an intellectual property right (IPR) to a third party to use, reproduce, represent or modify such right on an exclusive or non-exclusive basis. Such authorisation is generally granted in exchange for compensation and subject to limitations (with respect to the geographical scope, the duration, the nature of the rights licensed, etc).

The French Intellectual Property Code (IPC) expressly refers to licences over trademarks, patents, designs and models and databases. With respect to copyright, the IPC (article L122-7) only refers to the assignment of the patrimonial rights of the author (ie, performance right and reproduction right). However, provided that the exploitation of the assigned rights must be delimited with regard to its scope, destination, location and duration (article L131-3), the applicable rules and effects will often be similar to those of a licence. Particularly regarding software, the term 'licence' is commonly used.

In addition, although know-how does not constitute a proprietary right benefiting from specific protection under the IPC, a licence of know-how is a usual practice recognised by the courts.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

French legislation does not directly govern the creation or otherwise regulate the terms of an international licensing relationship. No specific limitations apply and the parties remain free to set forth the terms and conditions of their relationship, whether the licence is national or international, subject, however, to applicable general contract rules.

- What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

No such requirements exist specifically for international licensing as compared with national licensing.

Article L330-3 of the Commercial Code provides for pre-contractual disclosure obligations that are incumbent upon any person that makes available to another person a corporate name, trademark or trade name and requires from such other person an exclusivity or quasi-exclusivity undertaking with respect to its activity. The pre-contractual information must be disclosed in a document provided at least 20 days prior to the signature of the agreement. Such document must contain truthful information allowing the licensee to commit to the contract with full knowledge of the facts.

The grant of licensing rights, whether international or national, must be registered either for validity purposes or for enforceability purposes (see question 12).

- Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?**

An international licensing relationship that is governed by French law is subject to the general contract law principles, including performance in good faith (article 1104 of the Civil Code), which leads to an obligation of loyalty, cooperation and consistency. In the case of breach of the good faith principle, the contract may be terminated and damages potentially awarded.

French or EU competition rules (or both) will also apply to an international licensing relationship that produces effects in the French territory and will sanction an abuse of its dominant position by the licensor or an agreement that can be viewed as restricting competition or as a restrictive practice.

With regard to assignment of copyright, the author is entitled to make a claim for revision of the contractual price where he or she suffered a prejudice valued at more than seven-twelfths of the consideration he or she should have received for such assignment. This claim may be filed only where the work has been assigned against a fixed compensation (as opposed to a proportional consideration).

Lastly, non-renewal or termination of a licensing relationship may occur in accordance with the terms of the agreement (non-renewal does not require good cause but termination does unless the agreement

provides for termination for convenience), provided always that the termination or non-renewal is made in writing and that the notice period is reasonable. Article L442-6 I 5° of the Commercial Code sanctions the brutal termination of an established commercial relationship and requires 'sufficient' prior written notice.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Insofar as there is no legal definition of either a franchise or a licence, French law does not expressly distinguish between licences and franchises.

In practice, those two types of arrangement do not have the same scope and purpose. Pursuant to the European Code of Ethics for Franchising (to which the French Franchise Federation now refers), the rights granted by the franchisor to the franchisee entitle and compel:

the individual Franchisee, in exchange for a direct or indirect financial consideration, to use the Franchisor's trade name, and/or trademark and/or service mark, know-how, business and technical methods, procedural system, and other industrial and/or intellectual property rights, supported by continuing provision of commercial and technical assistance, within the framework and for the term of a written franchise agreement, concluded between parties for this purpose.

A franchise agreement therefore necessarily includes a licence of use of IPRs owned by the franchisor, but the purpose of the franchise agreement is not limited to such licence.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)?

France is party to the Paris Convention for the Protection of Industrial Property (since 7 July 1884), the PCT (since 25 February 1978) and the TRIPS (since 1 January 1995).

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

In principle, clauses by which the licensee agrees not to contest the validity of the licensed IPRs are valid in France. However, they do not prevent the licensee from challenging the validity of his or her own licence agreement by invoking a prior decision invalidating the right upon a third party's request.

Nonetheless, the validity of such clauses may be contested under European and French competition law, as they could possibly procure an undue competitive advantage and protection for the licensor. EU Regulation No. 316/2014 of 21 March 2014 on the application of article 101 of the Treaty on the Functioning of the European Union (TFEU) to categories of technology transfer agreements considers such a prohibition as an 'excluded restriction' (which excludes the benefit of the exemption provided by said regulation). However, the licensor is entitled to terminate a licence agreement in the event that the licensee challenges the validity of one or more of the licensed IPRs.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

Where a trademark, patent, design or model registration is declared invalid, all licences granted over such registered right automatically become null and void.

If the registration of the IPR expires, the object of any related licence agreement disappears. The agreement therefore becomes null and void, and the licensor may no longer levy royalties. However, except for trademarks that can be indefinitely renewed, the licence must not be granted for a term that extends beyond the expiration of the term for which the underlying right is legally protected. If the

trademark expires before the end of the licence agreement as a result of a failure of the licensor to renew the trademark, the licensee may claim for damages.

In the case of termination or expiration of a licence agreement, the licensee may freely compete unless the licence agreement provided for a post-contractual non-compete clause (which must comply with legal and case law requirements; see questions 32 and 33).

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

No, a foreign national can register an IPR in France without original registration or evidence of use in the jurisdiction of origin. However, the registrant must designate a representative if the registrant is not established or domiciled in France or in a member state of the European Union or of the European Economic Area. If the registrant is not established or domiciled in France and is neither a national of a member state of the World Trade Organisation (WTO) or of the Paris Union, it must provide the INPI with evidence that its country grants protection to French trademarks. If such documents are in a foreign language, they must be accompanied with a French translation.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

A trademark does not exist unless it has been duly registered and cannot therefore be validly licensed if unregistered. Nothing would prevent the parties from entering into a licence agreement for a trademark application (ie, a trademark that has been applied for but not yet registered), but such licence will be effective only once the trademark has been registered, meaning that no third party has opposed the registration of the trademark within two months from the publication of the trademark application. It is therefore highly inadvisable.

Rights attached to a patent application can be transferred, in whole or in part. A patent application may therefore be granted under licence, on an exclusive or non-exclusive basis.

A design or model does not exist under French law unless it has been registered. However, an unregistered design may exist at the EU level (Community design). Pursuant to article 1 of Council Regulation No. 6/2002 of 12 December 2001 on Community designs, a design that meets the requirements for protection provided for by said regulation shall be protected by an unregistered Community design for a period of three years as from the date on which the design was first made available to the public within the EU. Article 32 of Regulation No. 6/2002 provides that such a design may be licensed for the whole or part of the EU (including France).

Copyright and know-how are not subject to registration or other official formality in order to be protected. They can nevertheless be licensed.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

Validity

Patent licences must be established in writing to be valid (article L613-8 IPC).

With respect to copyright, the IPC expressly mentions specific kinds of agreement that must be established in writing (performance, publishing and audiovisual production agreements, as well as free performance authorisations) (article L131-2 IPC). In addition, the transfer of copyright is subject to each of the assigned rights being separately mentioned in the assignment agreement and the field of exploitation of the assigned rights being defined as to its scope, purpose, place and duration (article L131-3 IPC). Lastly, the assignment of audiovisual adaptation rights must be established in writing in an instrument separate from the contract relating to publication of the printed work (article L131-3 IPC).

For other kinds of intellectual property licences, there are no particular legal validity requirements, but it is advisable to enter into a written licence agreement to set forth the conditions under which the licence is granted and for evidence purposes.

Opposability to third parties

Licence agreements relating to trademarks (article L714-7 IPC), patents (article L613-9 IPC), and designs and models (article L513-3 IPC) must be registered with the National Institute for Industrial Property (INPI) to be opposable to third parties. However, before its registration, a licence is nevertheless opposable to third parties that acquired rights after the date of the licence and that were aware of such licence when they did.

Security interest

Legal rules govern pledges over patents, trademarks, designs and models, software and cinematographic works. Pledges must be established in writing to be valid, registered with the INPI (and, for films, with the public register of cinematography and audiovisual works), and published in the official bulletin of industrial properties to be opposable to third parties.

Pursuant to article L142-1 of the Commercial Code, charges may be taken over a business. Thus, IP rights may also be covered by a general business charge.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

Those issues will generally be agreed between the parties in the licence agreement. In the absence of specific provisions to that effect, the following rules are applicable.

The IPC confers the right to institute infringement proceedings to the owner of the infringed IPR. Therefore, a foreign licensor that has granted a licence in France can institute infringement proceedings in France without joining the French licensee.

Unless otherwise set forth in the agreement, the licensee that has been granted an exclusive right may institute infringement proceedings if, after prior written notice to the owner of the infringed right, the owner does not institute such proceedings. With respect to patents specifically, the same rule applies to the holder of a compulsory or automatic licence.

In any case, each party to a patent, trademark, design or model licence agreement remains entitled to intervene in the infringement proceedings instituted by the other party to obtain compensation for its own prejudice.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

The right to sub-license does not exist statutorily and must necessarily be granted contractually to the licensee.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

France is a 'first to file' jurisdiction. However, if a patent application has been filed either for an invention that has been stolen from the inventor or in breach of a legal or contractual provision, the injured party may claim the ownership of the application or the patent (article L611-8 IPC).

The exclusive right of exploitation over a patentable invention is effective as from the filing of the patent application and the use of an invention in respect of which a patent application has been filed but the patent has not been issued yet may be licensed (articles L613-1 and L613-8 IPC).

A non-patented or non-patentable invention can nonetheless be protected through the rules applicable to know-how as long as it meets the requested conditions (see question 17).

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

New inventions that are the product of an inventive activity and are capable of industrial application are patentable in France, in all technological domains (article L611-10 IPC).

Plans, principles and methods for the performance of intellectual activities, for games or economic activities, as well as computer programs, are not considered as patentable inventions, to the extent that the patent application or the patent concerns only one of these elements as such.

As a general rule, living organisms are not patentable. More specifically, the human body and the discovery of one of its elements, including the sequence or partial sequence of a gene, cannot be patented. Only an invention consisting of the technical application of a function of an element of the human body may be protected by a patent. This protection covers the element of the human body only to the extent necessary to the conception and the exploitation of this specific application (article L611-18 IPC). Animal pedigrees and plant varieties (as defined in article 5 of Regulation No. 873/2004) cannot be patented either. However, inventions relating to plants or animals are patentable if the technical feasibility of the invention is not confined to a particular plant or animal variety (article L611-19 IPC).

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

There is no legal definition of trade secrets or know-how in France.

No specific legislation governs know-how in France, but know-how is enforceable as long as it is original, secret, economically valuable and protected from any form of involuntary disclosure. Although the wrongful use or disclosure of know-how to third parties does not constitute a proprietary right infringement, resulting damages may be claimed before courts through the general mechanisms of civil liability and, more specifically, unfair competition proceedings.

Reference is also made to Commission Regulation 316/2014 of 21 March 2014 on the application of article 101(3) TFEU to categories of technology transfer agreements.

In addition to the protection afforded to ordinary know-how, specific criminal provisions relate to the disclosure of trade secrets: a manager or employee of a company who communicates or attempts to communicate to a third party a trade secret owned by the company may be sentenced to two years in prison and a €30,000 fine. Such employee may also be deprived of certain civic and civil rights (article L621-1 IPC).

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

A licensor is entitled to contractually restrict disclosure or use of trade secrets and know-how by the licensee, both during and after the term of the agreement.

Such restrictions may, however, be sanctioned under both French and European competition law if the protected elements are no longer secret (through no fault of the licensee) and as long as they restrict competition.

It is up to the parties to the licence agreement to decide whether to include improvements to which the licensee may have contributed in the non-disclosure obligation. In practice, it will generally depend on whether the improvements may or may not be used independently from the initial know-how or trade secrets.

19 What constitutes copyright in your jurisdiction and how can it be protected?

French copyright protects intellectual works of any kind, as long as they are original and expressed in a medium (whatever the medium). The IPC provides a non-exhaustive list of works that are entitled to copyright protection: books, brochures and other literary, artistic or scientific writings, conferences, speeches, pleadings, dramatic works and musicals, choreographic works, musical compositions with or without

lyrics, cinematographic and other audiovisual works, designs, paintings, architectural works, sculptures, graphic and typographic works, photographs, illustrations, maps, software and creations of the seasonal fashion industry.

Without prejudice to the rights of the author of the original work, translations, adaptations, transformations or arrangements of original works also benefit from copyright protection, as well as anthologies or collections of works or data, including databases, which constitute intellectual creations by virtue of the choice or presentation of their contents.

The title of an intellectual work is protected by copyright in the same way as the work itself, as long as it is original.

The author of an intellectual creation automatically benefits from the copyright protection as from the creation of the work. No registration, publication or other formality is required as copyright is a *sui generis* right.

Copyright is protected through the legal provisions that sanction copyright infringement and allow the injured party to initiate infringement proceedings against any copyright infringer.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

As long as the licensor has authorised the licensee to improve, adapt or otherwise modify the licensed work, and provided that the work created by the licensee on the basis of the licensor's original work (the 'derivative work') is subject to copyright, the licensee will benefit from an independent copyright on the derivative work. Therefore, the licensor shall not be entitled to use the derivative work unless the licensee assigned its copyright to it. Provided that the assignment of copyright is established in writing (see question 12) it is indeed advisable, from the licensor's point of view, to require the contractual assignment of copyright by the licensee for any derivative work. The licensee may request adequate compensation for such assignment.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Perpetual commitments are prohibited under French law. Therefore, perpetual software licences are considered invalid.

Another way of addressing this concern is to grant a licence for the duration of the protection of the IPR under applicable law. Also, licences entered into for an indeterminate period of time are valid, provided, however, that they may be terminated at any time for convenience subject to reasonable prior notice.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

There are no general legal requirements to be complied with prior to granting software licences.

Export of software may be subject to prior authorisation where the software is considered as a 'dual-use item' under Council Regulation No. 428/2009 of 5 May 2009 (as amended by EU Regulation No. 1232/2011 of 16 November 2011). Dual-use items include software and technology, which can be used for both civil and military purposes. These export rules apply to physical exports as well as transmission of software or technology by electronic media, fax or telephone to a destination outside the EU. This regulation sets forth a list of dual-use items that are subject to prior authorisation when exported outside the EU. In addition, certain sensitive items may also be subject to prior authorisation for intra-Union transfers.

France has adopted specific rules with respect to the provision, transfer from a member state of the EU or import from a non-EU country of encryption means that do not exclusively ensure authentication and control of integrity functions, and the transfer to a member state of the EU and export to a non-EU country of encryption means that do not exclusively ensure authentication and control of integrity functions. Such operations are subject to prior declaration to, or prior authorisation of, the prime minister.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

The right to perform or authorise any translation, adaptation, arrangement or any other modification to software, and the reproduction of the software resulting therefrom, belongs to the author of the software (article L122-6, 2° IPC). The licensee may perform those acts without the authorisation of the author only where they are necessary for the use of the software in accordance with its intended purpose, including for correction of errors, subject, however, to the author's freedom to contractually reserve the right to correct errors him or herself and determine the specific conditions under which the licensee will be authorised to perform those acts (article L122-6-1, I. IPC).

As long as it has been duly authorised by the licensor to modify the licensed software, the licensee will have a copyright over the modified or improved version of the software if the resulting software constitutes a work protectable under copyright, meaning that it substantially differs from the original software and is personal to the licensee. However, case law generally considers that software is an evolving product by nature and that successive versions of this product that must be compatible with the previous version are not new original works. In any case, the use of the modified or improved software by the licensee shall be made without prejudice to the rights of the author of the original software. It is specified that, unless otherwise provided by statutory or contractual provisions, the patrimonial rights in the software and related documentation created by one or more employees in the execution of their duties or following their employer's instructions are the property of the employer, which is exclusively entitled to exercise such rights.

A software licensee will not obtain upgrades and new releases from the licensor in the absence of a contractual provision to that effect (ie, a maintenance commitment). With respect to bug fixes, provided that the licensor did not expressly exclude them in a warranty disclaimer and provided that they prevent the licensee from using the software in accordance with its intended purpose and in compliance with what has been agreed between the parties (the specifications, the software documentation, etc), the licensee should be entitled to obtain corrections or modifications from the licensor and, if not obtained, request the termination of the agreement, reimbursement of the price paid, damages or a combination thereof. This will be decided by courts on a case-by-case basis (see question 25).

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

French legal provisions relating to technical measures of protection and information, resulting from the transposition of Directive 2001/29 dated 22 May 2001 on the harmonisation of certain aspects of copyright and related rights in the information society, expressly exclude software.

The IPC only provides that advertising, or using notices relating to means that allow removing or neutralising any technical device protecting software, must mention that the illicit use of such means may be sanctioned under infringement rules. The validity of technical devices protecting software is therefore implicitly admitted, provided that such devices do not restrict the rights of the software users, including, without limitation, the right to make a back up copy (although the licensor can provide the back up copy itself to the licensee), the right to modify the software when necessary for using the software in accordance with its intended purpose (see question 23), the right to reproduce or translate the software code for interoperability purposes, etc.

Most of the time, these technical measures consist of locks that prevent the licensee from copying the software. The validity of a process or routine that, beyond a simple lock, would disable, erase or otherwise adversely affect the licensed software in the case of unauthorised access would be assessed on a case-by-case basis, but remains debatable. In any case, the licensee should be informed of its existence, and this process or routine should not restrict the licensee's normal and authorised use of the software. But the use of such a process or routine could, nonetheless, be punished if it is out of proportion with the alleged threat. In addition, specific criminal sanctions may apply if this measure adversely affects the licensee's computer system or data (articles 323-1 to 323-7 of the Criminal Code).

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

French courts generally admit the existence of bugs, provided, however, that the number of bugs is limited and that they are fixed progressively during the acceptance procedure and tests. However, where the error prevents the licensee from using the software in accordance with its intended purpose or in compliance with what has been agreed between the parties (the specifications, the software documentation, etc), the licensor can be liable to the licensee. Such liability would be determined on a case-by-case basis, depending, in particular, on whether the licensed software is standard or specific software or whether the software licence is granted alone or in connection with a global contract for the sale of hardware or a computer system. This will have an influence on the application or non-application of the statutory hidden defects warranty and the statutory warranty of conformity delivery, in addition to any contractual warranty that the licensor would have granted in the licence agreement.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

Software that interferes with the users' control of the device could be deemed fraudulent access or fraudulently maintaining an automated system of data processing.

The Criminal Code (article 323-1) prohibits any person from fraudulently accessing or fraudulently remaining inside an automated system of data processing, such act being sentenced by two years of prison and a €60,000 fine.

Software that interferes with the users' control of the device, without the prior consent or knowledge of the user, could be deemed as fraudulently accessing or fraudulently remaining inside an automated system of data processing.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

To the best of our knowledge, French courts have not restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software. Very few decisions relate to free software; they have sanctioned non-compliance with the terms and conditions of the GNU GPL licence and imposed an adequate information obligation on the licensor.

The legal status of free licences remains an issue that has not been definitely settled as it contravenes French copyright legislation and practices in several aspects.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

With respect to works other than software protected by copyright, the law provides for the proportional participation of the author in the revenues generated by the sale or exploitation of the assigned work. However, the author may be compensated by a fixed sum in certain situations where the proportional compensation is not relevant (as listed in the IPC).

In other cases, the nature, amount, manner and frequency of payments of licence royalties are not governed by any specific statutory provisions.

The amount of interest on late payments is determined by the parties. Nevertheless, the recently amended article L441-6 of the Commercial Code stipulates a minimum rate of three times the legal interest rate (0.93 per cent at 1 July 2016). Where no rate is specified in

the agreement, the applicable rate is 10 per cent over the official interest applied by the European Central Bank to its most recent financing operation.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

There are no restrictions on transfer and remittance of currency in France, nor is there any reporting requirement. However, payments in excess of €3,000 when the debtor has its fiscal domicile in France or acts for professional purposes, and €15,000 when the debtor evidences that its fiscal domicile is not located in France and does not act for professional purposes, cannot be in cash and are required to be paid by wire transfer or cheque.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

As a general rule, when a foreign company earns a profit from its activities in France, it is taxed in France for this specific income unless otherwise provided by a treaty against double taxation. Foreign companies that do not carry on any business of their own in France but have granted to a French-based company a licence over an IPR may be subject to taxation in France if they receive royalties relating to this IPR. Such royalties will give rise to a withholding tax that can generally be avoided if a treaty against double taxation has been entered into with the licensor's home country. The amount of the withholding tax is generally set at a flat rate of 33.33 per cent. However, in light of the specificity of each given situation, tax matters call for personalised advice.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

There is a long-established principle under French law that all payments made in France must be in the French currency (ie, euros). Hence, if a dispute relates to a domestic licence, a court may only issue an order of payment in the national currency, even if the court makes its calculation on the basis of the foreign currency chosen by the parties in the licence agreement. In such case, the conversion between the foreign currency chosen in the contract and the national currency will generally be made on the day of the effective payment.

However, French courts may render a judgment ordering payment in a foreign currency if the dispute is related to an international contract that includes a clause providing that payments be made in a foreign currency. In that case, a court may order that any payments due under the contract be made in the chosen foreign currency. Similarly, any damages awarded by a court could be in that same foreign currency, as such currency is the one chosen by the parties for any payment applicable between them.

There are no legal restrictions to setting forth a contractual indemnity for any shortfall to a foreign licensor owing to currency exchange fluctuations. In the absence of any such clause, it is advisable that a party claiming such a shortfall owing to a currency fluctuation ask the court, with the appropriate supporting evidence, to be awarded such a shortfall.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Under French law, any agreement that has as its object or effect the restriction of trade or competition falls under the prohibition of articles L420-1 (collusion) and L420-2 (abuse of a dominant position) of the Commercial Code.

Agreements restraining competition may, nevertheless, be justified and thus escape sanctions if they contribute to economic progress and benefit consumers, without giving the undertakings involved the opportunity to eliminate competition for a substantial part of the products in question and only insofar as these restrictions are essential to achieve the aim of progress (article L420-4 of the Commercial Code).

EU Regulation No. 330/2010 of 20 April 2010 on the application of exemptions to vertical agreements may be enforced by French

competition authorities and courts, insofar as the practices in question may affect trade between EU member states. It is also systematically used by French authorities as guidance for domestic matters. This regulation applies to vertical agreements containing provisions that relate to the assignment or use of IPRs, provided that those provisions do not constitute the primary object of such agreements and are directly related to the use, sale or resale of goods or services. Similarly, exemptions regarding licensing of technology (patent, know-how, design and model rights and software copyright licences) are governed by Regulation No. 316/2014 of 21 March 2014 on the application of article 101(3) TFEU to categories of technology transfer agreements.

Exclusive dealing agreements are not, as such, considered to be anticompetitive. However, such agreements could possibly be held to be illicit if they have as their effect a restriction of competition that is not counterbalanced by considerations provided in the aforementioned article L420-4.

Restrictions of active sales to customers that one party to the agreement has reserved to itself or allocated to its other contractors are admitted, provided that such restrictions do not apply to resale by the other party's customers. There can be no restriction on passive sales. Exclusive agreements leading to an absolute territorial protection are prohibited.

Restrictions on the source from which one party may purchase goods or lease services are not deemed to restrict competition as long as they are justified by commercial or technical conditions (eg, if they are necessary to maintain the common identity and reputation of a distribution network).

The fixing of minimum prices for the resale of goods or for the supply of services is prohibited by articles L420-1 and L442-5 of the Commercial Code. However, price guidelines or maximum prices are allowed provided that no pressure is put on resellers that effectively leads to the fixing of prices or the application of a uniform price across the network.

Article L442-2 of the Commercial Code characterises the act of selling at a loss as a criminal offence. In addition, article L420-5 subjects to criminal sanctions the act of offering prices to consumers that are excessively low in relation to the production, processing and marketing costs, where those prices have as their purpose or effect the driving of a business or product out of a market. Predatory prices are prohibited if they are indicative of an abuse of a dominant position.

Refusal to deal and tied selling are not prohibited between professionals provided they do not result from an anticompetitive agreement, characterise an abuse of dominant position (eg, in cases of refusal of access to essential facilities) or an abuse of economic dependence.

Unjustified discrimination among licensees may also constitute an abuse of dominant position or a collusion agreement, and may also be sanctioned under article L442-6 of the Commercial Code.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

Except for the prohibition of perpetual licences, there are no legal restrictions on the duration of a licence agreement. However, the licence must not be granted for a term that extends beyond the expiration of the term for which the underlying right is legally protected (see question 9). Competition rules related to exclusive agreements described in question 32 are applicable to licence agreements.

There are no legal restrictions with respect to grant-back provisions. The parties remain free to decide how they want to deal with those matters in the licence agreement. However, pursuant to EU Regulation No. 316/2014 of 21 March 2014 and the guidelines on the application of article 101 TFEU to categories of technology transfer agreements, exclusive grant-back obligations for severable improvements (granting the licensor an exclusive licence or assigning the licensor the rights related to these improvements) are excluded from the benefit of the block exemption, even though the licensor pays a consideration for acquiring the improvement or for obtaining an exclusive licence. However, the existence and level of such consideration may be a relevant factor in the context of an individual assessment under article 101 TFEU, as a grant-back obligation made against consideration is less likely to create a disincentive for the licensee to innovate.

Non-compete obligations must be reasonable as regards their duration, their geographical applicability and the scope of activities covered. In distribution agreements containing a licence of IPRs, a non-compete obligation would not be covered by the exemption of EU Regulation No. 330/2010 of 20 April 2010 on the application of exemptions to vertical agreements if its duration is indefinite or exceeds five years. In addition, a non-competition clause applicable after the termination of an agreement is valid only if it is necessary to protect, in a proportionate manner, the legitimate interests of the beneficiary and if the time and place of its performance is limited. Pursuant to the above-mentioned EU regulation, a post-termination non-compete obligation would benefit from the exemption only if it is indispensable to protect know-how transferred by the supplier to the buyer, is limited to the point of sale from which the buyer has operated during the contract period, and is limited to a maximum period of one year.

In principle, outright prohibitions on sales over the internet are no longer possible (see, for example, the decisions of the Court of Appeal of Paris dated 31 January 2013 and 14 March 2014, which fined (respectively €17,000 and €10,000) brand owners for prohibiting their approved distributors from selling their products online). However, case law and the European Commission's guidelines on vertical restrictions have admitted the practice of restricting the right to sell via the internet by attributing it only to retailers that already operate a physical point of sale. In any case, the licensor cannot reserve to itself the right to sell over the internet.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

As under EU law, the way in which IP rights are used may lead to an anticompetitive behaviour prohibited by French competition law.

In particular, a refusal to grant a licence may, under certain circumstances, constitute an abuse of a dominant position. It would be so if the holder of an IP right enjoys a dominant position and such refusal is not objectively justified. For instance, the refusal by a leading software company to grant a licence to a category of distributors for a certain time and thereafter to discriminate such category in terms of price would constitute an abuse of a dominant position (Paris Court of Appeal, 24 May 2005).

More recently, the French Supreme Court considered that a telecommunication operator abused of its dominant position by charging, at an excessive price, information protected by intellectual property (French Supreme Court, 3 June 2014, No 12-29.482).

The use of IP rights may also constitute an agreement restricting competition prohibited by article L.420-1 of the French Commercial Code and/or 101 TFEU. One of the flagship cases is *TF1 against Editions Montparnasse and Minister of the Economy and Finance*. TF1, a private national TV channel, had to invest part of its budget in the production of cinematographic and audiovisual works pursuant to French law. TF1 was therefore a producer but co-produced most of the time. The IP rights of the authors were in principle transferred to the producer. However, TF1 reserved in its co-producing contracts the exclusive right of its subsidiaries to publish and distribute videos of the works for at least five years. The financing of the works was subject to such exclusivity. After stating that the exercise of an exclusive right by its holder may give rise to an abusive behaviour, the French Supreme Court considered that the clauses inserted by TF1 were anticompetitive as TF1 precluded the access of its competitors to the downstream market for the publishing and the distribution of the works (French Supreme Court, 26 November 2003, No. 00-22.605).

As regards pay-for-delay cases, there has been to the best of our knowledge no court decision at the national level yet. However, there is little doubt that the position of the French Competition Authority and national courts will be similar to the one expressed by the Commission, as recently confirmed by the General Court (General Court, 8 September 2016, *Sun Pharmaceutical Industries and Ranbaxy*, T-460/16 – eight other cases are pending). It is in particular likely that pay-for-delay would also be considered as a restriction 'by object', which means that it is not necessary to demonstrate the effects of the practice on competition because the very nature of this practice can be regarded as being 'injurious to the proper functioning of normal competition'.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Yes, contractual indemnification provisions are generally used and enforceable. Insurance coverage is available in support of such indemnification provisions (subject to the exclusions set forth in the insurance policy).

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Clauses excluding or limiting contractual liability are valid under French law, except where they contradict the scope of the main obligation under the agreement, and in cases of gross negligence or wilful misconduct.

However, courts are not bound by the liability cap specified by the parties and may award damages beyond this cap in relation to the prejudice actually suffered.

There are a number of statutory exceptions to the validity of clauses limiting or excluding liability, such as for sale agreements between a professional seller and a consumer or a non-professional buyer, in construction agreements and transportation agreements, which would not apply within the context of licence agreements.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

Two situations must be distinguished:

- if the licence agreement is entered into for a limited duration, termination may not occur before the end of the agreed term except in the case of breach. If one party terminates the agreement in advance for convenience, it will be liable for damages to the other party, except if otherwise agreed between the parties; and
- if the licence agreement is entered into for an unlimited duration, either party may terminate the agreement at any time subject to a prior reasonable notice. However, pursuant to article L442-6 I-5° of the French Commercial Code, brutal termination (with no reasonable prior notice) will give rise to damages.

French courts have not extended to licensing relationships the application of commercial agency laws that contain rights or remedies or provide indemnities upon termination or non-renewal.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

Provided that the right to sub-licence is contractually granted (see question 14), the termination or expiration of a licence agreement will necessarily terminate the related sub-licences in the absence of contractual provisions addressing this issue. As the licensor is not a party to the sub-licensing contract between the licensee and the sub-licensee, such contract is not enforceable against the licensor. Hence, the sub-licensee may in principle not enforce the provisions of the sub-licence against the licensor in case of termination or expiration of the licence. However, the sub-licensing contract may include a clause organising the occurrence of the termination or expiration of the licence agreement. Such clause may provide an obligation on the licensee to inform its sub-licensee of the termination or coming expiration of the licence agreement. In addition, in case of termination or expiration of the licence, the licensee could be under the obligation to put the licensor and the sub-licensee in contact in order to give them the opportunity to directly conclude a licence agreement.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

The bankruptcy of the licensee has no impact on the international licence relationship and the receiver appointed by the commercial court to manage the licensee's company during the bankruptcy procedure is the only person who may decide whether to continue the licensing agreement or to terminate it. A provision of the licence agreement pursuant to which the agreement could be terminated by the licensor in the case of bankruptcy of the licensee is deemed to be void. The same applies with respect to any sub-licence in the case of bankruptcy of the licensee.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

Under French conflict law regulations, and in accordance with Regulation No. 593/2008/EC of 17 June 2008 on the law applicable to contractual obligations (Rome I), the parties remain free to choose the law governing their agreement.

However, pursuant to the Rome I Regulation, where all the elements of the contractual relationship are connected with one country, the choice of a foreign governing law shall not prejudice the application of public policy provisions of such country.



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Any provisions of a foreign law that are inconsistent with public policy or morality shall not be enforced in France.

- 41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.**

An arbitration clause in an international contract is valid. In a domestic contractual relationship, the French Civil Code allows arbitration only between professionals. Cases may be brought before various relevant national or international arbitral institutions (the French Arbitration Association, French Arbitration Committee, ICC, etc).

Such arbitration proceedings can be conducted in France or in another jurisdiction.

As of today, the introduction of collective arbitration is still under discussions in France.

- 42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?**

A court judgment or arbitral award from another jurisdiction may be enforceable in France. Legal enforcement requires an exequatur of such judgment or award, which is obtained by way of an order rendered by the president of the civil court of the place of the debtor's residence as regards a foreign court judgment and, by the president of the civil court of Paris as regards a foreign arbitral award.

France has been party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards since 26 June 1959.

- 43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?**

Injunctive relief may be waived contractually as long as the parties are both professionals and such a clause does not entitle, directly or indirectly, the co-contractor to merely not fulfil its contractual obligations.

Germany

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Overview

- 1 Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?

A foreign licensor is not restricted in any way if he or she enters into a licence agreement without establishing a subsidiary or branch office in Germany. There are also no particular restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor. German law does not distinguish between Germans and foreign nationals regarding the establishment of business entities.

Kinds of licences

- 2 Identify the different forms of licence arrangements that exist in your jurisdiction.

In general, three types of licence agreements can be distinguished: exclusive, sole and non-exclusive licence agreements. While an exclusive licence confers all the rights that subsist in the subject matter of the licence agreement to the licensee, a sole licence only gives exclusivity in the sense that the licensor will not grant licences to any other party, but he or she will retain the right to use the subject matter of the licence agreement for itself. A non-exclusive licence, contrary to an exclusive or sole licence, does not grant all the rights that subsist in the subject matter of the licence agreement to one particular licensee; the licensor may grant rights to several licensees. The rules applicable to exclusive or sole licences may be different from the rules that apply to non-exclusive licences. For example, unlike a non-exclusive licensee, an exclusive or sole licensee of a patent has standing to sue for infringement and may grant sub-licences.

In the patent field, there are also cases of compulsory licences. A compulsory licence to a patent must be granted (in rare cases) for public interest reasons, or when the licensee owns a dependent patent to an important invention that he or she cannot exploit without a licence to use the licensor's basic patent (German Patent Act, section 24(1) and (2)). An obligation to conclude a licence agreement also exists in the field of standard essential patents, where any third party who wishes to practice the standard can ask for a licence under the patent for such use. Certain compulsory licences are also known in the copyright field (see German Copyright Act, section 42a).

Any kind of intellectual property that allows its holder to exclude others from using the same, such as patents, utility models, copyright, industrial design, trademarks, topographies of semiconductor products, etc, can be the subject matter of a licence agreement. In addition, personality rights and confidential information (know-how, trade secrets) can also be the subject matter of a licence agreement.

Law affecting international licensing

- 3 Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.

Legislation does not directly govern the creation or otherwise regulate the terms of a licensing relationship. German intellectual property acts such as the Patent Act or the Trademark Act only specify that the respective intellectual property rights can be the subject of an exclusive or non-exclusive licence (German Patent Act, section 15(2); German Trademark Act, section 30), but do not contain any rules about the creation or the further terms of a licence.

In principle, parties are free to choose the content of the licence agreement, but this freedom is limited by antitrust law and general contract law, in particular the laws on standard terms and conditions, which impose certain requirements on the terms of a licensing relationship (see answers to questions 5, 32, 33, 36 and 40). In the case of compulsory licences (questions 2 and 28), royalty rates typically have to be fair and reasonable.

- 4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

The licensor does not have any specific pre-contractual disclosure obligations. However, the general obligation to act in good faith (see question 5) requires a party to a prospective licence agreement to disclose information that is so relevant for the decision of the other party that disclosure can reasonably be expected. For example, courts found a disclosure obligation to exist where the licensor was aware of prior art that was likely to render the patent to be licensed invalid (RG GRUR 41, 99, 101), or where the licensor was the inventor and owner of the rights to the invention whose use was to be licensed, but a third party, and not the licensor, was registered as the formal applicant of the corresponding patent application (LG München I, case No. 21 O 4559/08).

There is no requirement to register a grant of licensing rights, but a registration may have certain advantages for the licensee (see question 12).

- 5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

Good faith principles are applied, first of all, for the interpretation of the licence agreement. Secondly, where an issue has been left open in the licence agreement, for example, payment modalities or questions of liabilities, and the application of statutory rules of contract categories like purchase contracts or lease contracts does not seem to be appropriate or does not provide an answer, good faith principles are applied to determine what the parties would have agreed upon.

Where standard terms and conditions of one of the parties are used in a licence agreement, any provision that has not been individually negotiated between the parties must comply with the statutory rules on standard terms and conditions. Under these rules, any provision that,

contrary to the principles of good faith, places the other party (the party not using the standard terms) at an unreasonable disadvantage is void (German Civil Code, section 307(1)). In other words, fair dealing obligations apply when standard terms and conditions are used.

In a case where a royalty-free trademark licence agreement was not limited in term, and the right to terminate the agreement without good cause was not waived, the Federal Court of Justice found that the agreement could be terminated by the licensor with a notice period of six months (BGH, case No. I ZR 312/02). In fact, although not yet confirmed by case law, it can be argued that under the application of general civil law principles, any licence agreement unlimited in term can be terminated by either party without good cause if such a right to terminate is not explicitly or implicitly waived in the agreement (BGH, case No. X ZR 79/92). Where an agreement cannot be terminated without good cause, a modification of the agreement (eg, a reduction of minimum royalties) may be possible if the circumstances under which the licence agreement was concluded have changed after the conclusion of the agreement (BGH, case No. X ZR 137/99).

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Although franchise is not one of the contract categories specifically dealt with by statutory law in Germany, franchise agreements are recognised by case law as a typical form of contract to which certain principles apply. A franchise agreement normally comprises licences to intellectual property rights like trademarks or trade names, and to know-how, which are used for the distribution of goods and services.

Franchise agreements generally contain vertical restraints with respect to the products being distributed, like selective distribution, non-compete clauses or exclusive distribution. The legality of franchise agreements under antitrust law is determined by the Block Exemption Regulation (Commission Regulation (EU) No. 330/2010) and the Guidelines (2010/C 130/01) on Vertical Restraints. Whenever an agreement qualifies as a franchise agreement under the Regulation and the Guidelines, different rules may apply than for 'mere' licence agreements.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Germany is a party to all these treaties.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

No-challenge clauses in licence agreements concerning patents and utility models are in general considered to be a violation of European antitrust law and therefore void (Technology Transfer Block Exemption Regulation (TTBER) article 5(1)(b)) (see question 31). The requirement is, inter alia, that the agreement is liable to affect trade among the member states of the EU. Exceptions exist where the licence is granted royalty-free or where the licensed technology is outdated (ECJ, case No. 65/86).

It should be noted that after the amendments to the TTBER and the Commission Notice (TTBER Guidelines) in May 2014, a more strict approach has been taken on no-challenge clauses. First, although no-challenge clauses in the context of a settlement or non-assertion agreement are generally considered to be allowed under antitrust law even after the amendments (Commission Notice (TTBER Guidelines) 2014/C 89/03 at 242), the amended TTBER Guidelines stipulate that they may be prohibited under article 101(1) Treaty on the Functioning of the European Union (TFEU) under specific circumstances with mentioning, as one of those circumstances, the case where an intellectual property right was granted following the provision of incorrect or misleading information (TTBER Guidelines at 243). No-contest clauses in trademark or design licence agreements are judged according to the same criteria.

Secondly, although in the case of an exclusive licence, the licensor may continue to reserve the right to terminate the licence agreement in the case of a challenge of the licensed intellectual property right by

the licensee, regarding the case of a non-exclusive licence, whether the reservation of such right in the case of a challenge is considered to be a violation of European antitrust law has to be decided on a case-by-case basis (TTBER article 5(1)(b)). The same applies to a clause of automatic termination in the case of a challenge by the licensee.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

Expiry or a final decision of invalidity of an intellectual property right usually leads to the expiry of a related licence agreement if there is no provision about the term of the agreement. However, the agreement may be set to run beyond the lifetime of the intellectual property right, for example, for a fixed period of time. Such a clause is common in agreements that grant a licence to know-how in addition to a licence to intellectual property rights. In the case of a plurality of licensed intellectual property rights, parties typically set the term of the agreement to the period of protection of the intellectual property right that expires last.

For patents and utility models, the European Commission considers a clause that extends the licensee's obligation to pay royalties beyond the lifetime of the licensed intellectual property right as not being in conflict with antitrust law (TTBER Guidelines at 187). However, this issue has not yet been decided by a court. Where the licence concerns a plurality of intellectual property rights, the agreement should specify whether royalty payments are reduced accordingly if one of the intellectual property rights expires, or whether the same royalty amount is due until all intellectual property rights have expired. The rules mentioned are also applicable to trademark and design licences, whether Community rights or national rights.

It should be noted that in Germany, unless otherwise agreed by the parties, royalties already paid by the licensee do not have to be paid back in the case of an invalidation of the licensed intellectual property right, and outstanding payment obligations for royalties that become due prior to the invalidation have to be fulfilled.

After expiry or invalidation of the licensed intellectual property right, the licensee is free to compete unless the licence agreement comprises a non-compete obligation for a time period after the expiry or invalidation. The validity of such a non-compete obligation under antitrust law depends on the circumstances of the case, in particular the effect it may have on the competitive situation after the expiry of the intellectual property right.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

Germany does not have any such requirements.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Unregistered trademarks, as well as all other intellectual property rights that do not require registration (eg, copyrights), can be licensed in Germany.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

There are no specific formal requirements in Germany for an intellectual property licence to be valid, or to take a security interest in intellectual property. In particular, since 1 January 1999 it is not necessary – although it is advisable – to conclude the licence agreement or the security interest in writing. It is also not necessary to register the agreement or security interest.

Statutory law regulates that a patent or utility model licence is always opposable to third parties that have acquired rights in the intellectual property right by assignment or licence (German Patent Act, section 15(3); Utility Model Act, section 22(3)). The same statutory rule applies to German trademarks and designs (German Trademark

Act, section 30(5); Design Act, section 31(5)). As regards Community trademarks and Community designs, a licence is unaffected by a subsequent transfer of the right or a subsequent licence if the licence has been recorded in the register of Community trademarks or designs, or if the subsequent assignee or licensee had knowledge of the licence (Community Trademark Regulation articles 23(1), 22; Community Design Regulation articles 33, 32). Where the trademark or design is acquired by merger or other universal succession, the licence remains valid in relation to the new holder.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

An exclusive or sole licensee of a patent or utility model can institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor unless he or she has been contractually prohibited from doing so. Contrary to that, a non-exclusive licensee of a patent or utility model has no standing to sue, but the right to sue can be granted by the owner of the patent or utility model to the non-exclusive licensee. At least if the licensee then brings suit, the owner can no longer do so.

A licensee of a German trademark, be it a non-exclusive licensee, a sole licensee or an exclusive licensee, can institute proceedings against an infringer only with the consent of the owner (German Trademark Act, section 30(3)). As regards Community trademarks, a non-exclusive licensee always needs the consent of the owner, whereas an exclusive licensee has the right to bring an infringement action if the licensor, having been requested to bring the action, does not do so within a reasonable period (Community Trademark Regulation article 22(3)). The same rules apply for German or Community designs (German Design Act, section 31(3), Community Design Regulation article 32(3)). As the general rule is that a licensee can act only with the consent of the owner, a sole licensee might have to be treated like a non-exclusive licensee. However, there is no case law on the rights of the sole licensee in this regard as yet.

As a rule, the owner of an intellectual property right has standing to sue. Exceptions to this rule exist where the owner has granted an exclusive licence and is not affected by the infringement, because, for example, he or she receives no running royalty fees from his or her licensee, or where the owner has granted his or her right to sue to the licensee, at least if the licensee made use of that right. If the owner has standing to sue, he or she can institute proceedings without the licensee, even if the licensee has already instituted his or her own proceedings. Licensees may join in the action of the owner to recover their own damages. However, at least for patents, German case law acknowledges damages claims only for exclusive licensees, not for non-exclusive licensees (BGH, case No. X ZR 48/03). As regards damages caused by trademark or design infringement, German courts have decided that a licensee (be it a non-exclusive or an exclusive licensee) cannot claim his or her own damages, but only claims of the licensor (BGH, case No. I ZR 93/04).

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

It is recognised that an exclusive licensee may sub-license the use of the trademark to third parties, unless the right to sub-license has been excluded in the licence agreement. In the case of a non-exclusive licence, the licensee is not entitled to grant sub-licences, unless such right was explicitly granted in the licence agreement.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Germany is a 'first to file' jurisdiction. A licensor can grant a licence for the use of an invention even before filing a patent application, or after

the filing of a patent application but before grant of the patent (German Patent Act, section 15(2), (1)).

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

Only technical inventions can be patented in Germany (German Patent Act, section 1). As a consequence, software and business methods 'as such' are not patentable, but technical aspects of software and technical implementations of business methods can be protected by patents, provided that the technical aspects are novel and inventive.

Living organisms are not precluded from patent protection per se. However, there are a number of exclusions and restrictions. The recent amendment of the German Patent Act, section 2a decided a question that is still to be answered for the EPO (see pending cases No. G 2/13 – *Broccoli II* and No. G 2/12 – *Tomatoes II*): besides the exclusion of patentability of plant and animal varieties as well as of essentially biological processes for the production of plants or animals, plants and animals obtained exclusively via such processes are now also excluded from patentability.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

There are a number of provisions in German legislation that govern the protection of trade secrets or know-how, which can primarily be found in the Act against Unfair Competition. These provisions apply to employees and to third parties. There is no statutory definition of trade secrets. According to the notion developed by the German jurisprudence, a trade secret covers all information connected to the business that is not public knowledge, which the owner of the business seeks to keep secret for reasonable economic interests, and which according to the will of the company owner, which has expressly been made known or is recognisable, should be kept secret. Therefore, in order for information to qualify as a trade secret, it must fulfil four cumulative requirements:

- the knowledge must relate to the business;
- it must not be in the public domain;
- there must be an interest; and
- there is an intent to keep the information secret.

Even though trade secrets are not regarded as intellectual property rights in Germany in the sense of a granting its holder exclusive rights, and the remedies available for intellectual property rights in the EU Enforcement Directive (2004/48/EC) are not applicable to them, courts do grant injunctions and damages when information is used that was passed on in breach of trade secret law.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

The licensor can restrict the disclosure and the use of trade secrets and know-how by the licensee or third parties during and after the term of the licence agreement. A liability of third parties arises only if they are also contractually related to the licensor. Otherwise, general law prohibiting the disclosure of trade or commercial secrets applies.

Secrecy obligations and use restrictions after the termination of the licence agreement are exempted from antitrust rules by article 2 of the TTBER (see question 32). However, if the know-how becomes publicly known after the date of the agreement or it proves to not have been secret at the date of the agreement, any restrictions lose exemption from antitrust rules, since only secret know-how can be the object of an agreement restricting competition. According to the German antitrust authority, the lawfulness of an absolute duration of such restrictions, for example, 20 years, is questionable. Therefore, licence agreements should limit disclosure for such time as the licensed trade secret continues to exist.

After the amendments to the TTBER and the TTBER Guidelines in May 2014 mentioned in question 8, any direct or indirect obligation on the licensee to grant an exclusive licence to the licensor in respect of any improvements to the licensed know-how made by the licensee, or to assign to the licensor the licensee's rights in the improvements is not

exempted from antitrust rules (article 5(1) TTBER). Before the amendment, the subject not exempted from antitrust rules was limited to 'severable' improvements. Therefore, the permissibility of restrictions regarding improvements made by the licensee may be in conflict with antitrust law, depending on the circumstances of the case.

19 What constitutes copyright in your jurisdiction and how can it be protected?

Literary, scientific and artistic works are protected via copyright, which includes, in particular:

- literary works, such as writings, speeches and computer programs;
- musical works;
- works of pantomime, including choreographic works;
- works of fine art, including works of architecture and of applied art and plans for such works;
- photographic works, including works produced by processes similar to cinematography; or
- illustrations of scientific or technical nature, such as drawings, plans, maps, sketches, tables and three-dimensional representations.

Translations and other adaptations or modifications of a work may constitute copyrighted creations of the person having created the adaptation or modification. Collections of works, of data or of other independent elements, which, by reason of the selection or arrangement of the elements, constitute a personal intellectual creation, are also protected by copyright.

Copyright protection requires that a work is the author's individual creation, which requires a certain level of originality. Recent decisions of both the Court of Justice of the European Union (Case No. C-5/08) and the German Federal Court of Justice (case No. I ZR 143/12) show a tendency towards a lowering of this threshold and a more equal threshold for different work categories.

Works that can be subject to copyright are protected without registration; the mere act of creation already establishes the copyright.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

The licensee will own the copyright for any artwork, software improvements or other works created by the licensee. If the licensor is interested in exploiting such works himself or herself, it is advisable to require the contractual granting of the exclusive or non-exclusive right to use the works created by the licensee (the copyright itself cannot be assigned in Germany). However, it should be noted that the contractual granting of the exclusive right to use the software improvements created by the licensee is not exempted from antitrust rules by article 5(1) TTBER (see question 18), and as a result, its permissibility under competition law should be decided on the circumstances of the case.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Perpetual software licences are recognised as valid and are frequently used in Germany. In general, the law of sales is applied to them. As the German law of sales provides for rather strict liability in the case of defects of the purchased goods, the licence agreement should define what constitutes a defect, and the measures the licensor has to take to remedy the defects. Further, since the law of sales does not provide for a right to terminate the contract in the case of material breach of contract, the licence agreement should include a provision that allows termination of the licence in this case (eg, if the licensee installs the software on more devices or for more users than contractually allowed, see LG Köln, case No. 28 O 482/05).

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

No particular legal requirements to be complied with prior to granting a software licence are known. Import or export restrictions may

apply only in very specific situations, such as licences for military use of the software.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

Unless otherwise agreed (see question 20), whoever makes improvements or modifications to the licensed software obtains the exclusive right to exploit these improvements (in the case of improvements made by an employee, the rights are automatically vested with the employer). However, if the licence agreement does not explicitly allow modifications to the software, the licensee is only allowed to modify the software to the extent that the modification is necessary for the intended use of the software, in particular, including bug fixes.

General contract law provides the licensee with a right to ask for bug fixes even in the absence of a provision to that effect in the licence agreement, but the licensee does not have a statutory right to obtain upgrades and new releases.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

There is only a small area of applications where such processes or routines are generally accepted. Outside this area, they can, in particular, not be introduced by way of standard terms and conditions in a software licence agreement. If such a mechanism is used outside the generally accepted area and the licensee has not agreed to the use in an individual agreement, the software can be deemed to have a material defect that is to be remedied by the licensor, and the licensor may be liable for damages. If the process or routine even blocks authorised access, for example, in order to enforce an invalid clause of the licence agreement, or in order to enforce a performance by the licensee to which the licensor has no right, the blocking may be considered an illegal threatening (OLG Frankfurt aM, case No. 11 U 7/99) or a violation of unfair competition law (LG München, case No. 7 O 115/00).

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

German courts have acknowledged for a long time that it is impossible to determine that a computer program is error-free. However, a clause stating that software is never error-free in standard terms and conditions cannot have the effect that any statutory warranty rights are waived. Rather, such a clause may have the effect that the licensor has the right to one or more attempts to fix the error before the licensee may rescind the contract. Further, such a clause may have the effect that the threshold between insignificant errors and errors considered to impair the usability of the software for the purpose presumed by the contract is shifted to a certain extent in favour of the licensor.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

No.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

The enforceability of the terms and conditions of open source licences has been acknowledged by several court decisions in Germany since 2004. In particular, courts have granted injunctions (eg, LG München I, case No. 21 O 6123/04) in cases where the GNU public licence (GPL) was violated, for example, by including code originally distributed under the GPL in software distributed under a proprietary licence. In these cases, the courts found that the GPL did not provide the defendant with a right

to distribute the code under the proprietary licence and, therefore, such distribution constituted a copyright infringement.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

The nature, amount, manner and frequency of payments of royalties, fees or costs can in principle be freely chosen by the parties to the licence agreement. One exception to this principle concerns copyright licence agreements, where the German Copyright Act provides that the author can demand an adjustment of the agreement where the payment to the author is not fair and reasonable (German Copyright Act, section 32(1)). Another exception concerns the field of standard essential patents, where according to the case law, antitrust law requires that any third party who wishes to practise the standard can ask for a licence under the patent for such use under fair, reasonable and non-discriminatory conditions.

In the absence of regulation of the interest rate on late payments in the licence agreement, general civil law provides for an interest rate of 8 per cent above the basic interest rate, and in the case of consumer contracts, 5 per cent (German Civil Code, section 288).

No regulatory approval of the royalty rate or other fees or costs is required in Germany.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

In Germany, anyone can make payments to foreign beneficiaries or receive payments from abroad without restrictions or a need for permission. However, companies or persons domiciled in Germany need to report to the central bank (Bundesbank) payments to or from abroad worth more than €12,500. These reports serve to provide statistical information about the degree and the structure of the trade between Germany and the rest of the world.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

A foreign licensor (ie, a licensor whose residence or registered office or place of habitual residence is not in Germany) may have limited tax liability in Germany for royalties from Germany (German Income Tax Act section 50a). A German licensee may be required to withhold the tax and deduct it from the royalty payments and pay it directly to the tax office on behalf of the licensor. Double taxation can be avoided where respective treaties are in place (currently with approximately 90 states). Where they are applicable, exemptions from the licensee's duty to withhold the tax may be available if a corresponding request is filed in due time (at least three months before royalty payments are made to the licensor).

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

If the licence agreement determines the payments to be made in a foreign currency, a judgment finding a payment obligation based on the agreement can specify the amount in the foreign currency.

However, if the place of performance under the agreement is Germany or another jurisdiction where the euro is the official currency, the defendant is free to pay his or her debts in euros, unless there is an express agreement to the contrary (German Civil Code, section 244). In this case, the currency exchange rate to be chosen is the rate at the day of the payment, not the day on which the payment should have been made. A contractual claim for the shortfall owing to currency exchange fluctuations may then exist.

On the other hand, if the place of performance under the agreement is not a jurisdiction where the euro is the official currency, or the licence agreement expressly states that the payment is to be made in a foreign currency, the defendant has to pay his or her debts in the foreign

currency. However, even in this case, for practical reasons the judicial enforcement of the judgment will lead to a settlement in euros.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Practices that have the intent to or effect of restricting trade between EU member states are governed by articles 101 and 102 of the TFEU and by the corresponding provisions of the German Antitrust Act.

Article 101 TFEU covers, inter alia, horizontal and vertical technology transfer agreements. The TTBER (No. 316/2014) provides certain general exemptions from violation by a licence agreement concerning, for example, patents, know-how and copyright for software. Individual exemptions of restricted practices are possible if they meet certain criteria listed in article 101(3) TFEU and do not fall within the hard-core restrictions.

Article 102 TFEU forbids abuse of a dominant position. It does not directly govern licence agreements, but exclusive licence agreements between competing undertakings may produce a combined dominance, and where such dominance is abused by a restricted practice, it can be considered a breach of article 102 TFEU.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

There are legal restrictions in respect of some of the above provisions in licence agreements. Exclusive licence agreements are in general permissible, but exclusivity in customer allocation is a hard-core restriction (see question 32), and thus such provisions are null and void. The same is true for an internet sales prohibition in a selective distribution agreement, which constitutes a restriction of competition 'by object' under EU law (CJEU, case No. C-439/09). Grant-back provisions for assignment of or an exclusive licence on improvements made by the licensee are excluded from the benefits of TTBER (see question 18) and, thus, must be assessed on a case-by-case basis to weigh up their pro- and anticompetitive effects. Non-competition clauses are generally not permissible if they hinder the licensee in the production, use or sale of unprotected items or products. The duration of the licence agreement may extend beyond the term of protection of the licensed intellectual property right (see question 9).

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

Since 2008, the European Commission has increasingly scrutinised agreements for patent dispute resolution. Inter alia, it has imposed fines in an amount totalling €146 million for infringement of article 101 TFEU (see answer to question 32) in the case of an agreement between Danish pharmaceutical firm Lundbeck and several generics companies. Under the agreement, Lundbeck had made substantial payments to the generics companies to delay their release of generic versions of a drug for which Lundbeck's product patent had expired, and to which it held only certain process patents, which provided more limited coverage. The decision of the Commission was upheld by the European General Court in September 2016 in a series of cases (T-472/13, T-460/13, T-467/13, T-469/13, T-470/13, T-471/13). The Court found that the Commission had correctly refused to apply the exceptions under article 101(3) TFEU in favour of the parties.

In a decision of 2009 (KZR 39/06 — *Orange Book*), the German Federal Court of Justice found that denial to grant a licence under a standard-essential patent (SEP) may be an abuse of dominant position under German and EU (article 102 TFEU) antitrust law. In this situation, seeking injunctive relief in a patent infringement lawsuit is likewise an abuse of dominant position. The conditions under which the owner of an SEP may nevertheless ask for an injunction were further limited in a decision of the Court of Justice of the European Union in July 2015 (C-170/13 — *Huawei v ZTE*). If an alleged infringer expresses his willingness to conclude a licence under fair, reasonable and non-discriminatory (FRAND) terms, the SEP owner may ask for injunction only after making a written offer for a licence on FRAND terms, if the defendant

did not diligently respond to the offer, in particular by submitting a specific counter-offer that also corresponds to FRAND terms.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are commonly used in Germany and are generally enforceable. For example, claims for product liability may arise against the licensor from the use of the licensor's trademark. The licence agreement may comprise a provision for indemnification of the licensor by the licensee with respect to such claims.

Insurance coverage for the protection of a foreign licensor may be available in support of an indemnification provision.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Parties can, in general, agree to waive or limit damages claims. Such disclaimers and limitations of liability are generally enforceable.

Exceptions exist where a party uses standard terms and conditions: in this case, for example, liability for damages caused with intent or by a grossly negligent act cannot be excluded or limited. The same is true for liability resulting from ordinary negligence in the event of the death or personal injury and for liability for damages that are typical and foreseeable.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

Parties are free to terminate the licence in accordance with the provisions as set out in the agreement. German law does not restrict the content of a termination clause (for the possibility to terminate the agreement in the absence of a termination provision in the agreement, see question 5). Therefore, German law does not generally impose conditions on or limit the right to terminate or not to renew a licensing relationship. An exception to this rule exists in the case of compulsory licences (see question 2), which owing to their nature cannot be terminated by the licensor without good cause. For restrictions of the right to terminate where the commencement of insolvency proceedings has been applied for by the licensee, see question 39.

In general, the payment of an indemnity or other form of compensation is not required upon a rightful termination of the licence agreement. However, there is at least one decision of an appeals court (OLG Celle, case No. 11 U 279/06), which ruled that if a franchisee is integrated into the organisation of the franchisor like a commercial agent and does not have the possibility to keep his or her customer base after termination or non-renewal of the franchise agreement, commercial agency law (German Commercial Code, section 89b) is to be applied by way of analogy and the franchisee has a right to compensation. Franchise agreements typically also comprise licence agreements (see question 6).

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

For copyright licences, the German Federal Court of Justice, in a series of three judgments between 2009 and 2012, decided that the termination of the licence agreement in general does not lead to the termination of sub-licences granted by the licensee (case No. I ZR 153/06, I ZR 70/10, and I ZR 24/11). In this case, the licensor has a claim against the

licensee for the assignment of the right to collect outstanding royalty payments from the sub-licensees. Although the Federal Court of Justice left the issue open, it can be argued that in the case of the expiration of a licence agreement (eg, if a licence agreement has a limited term), a sub-licence granted by the licensee likewise expires because the sub-licensee cannot acquire a use right from the licensee that goes beyond what the licensee owns.

It is generally expected that the courts will also adopt this case law for other fields of IP, such as patents and trademarks, which will have the consequence that sub-licences normally remain in force even if the licensor rightfully terminated the licence. If a licensor wants to avoid this consequence, it is advisable to include a provision in the licence agreement that requires the licensee to include clauses in the sub-licence providing that the sub-licence ends when the licence ceases to exist. In order to be certain that this provision is correctly applied, the licensor's explicit consent to any sub-licence may be required in the licence agreement. Alternatively, the right to sub-licence could be granted in a way that is limited to sub-licences which end when the licence ceases to exist. Such a provision if ignored by the licensee is arguably enforceable in that the sub-licence granted without the licensor's right to terminate is beyond what the licensee owns and therefore either void or to be treated as if the licensor's right to terminate was included.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

In the case of bankruptcy of the licensee, the insolvency administrator can choose whether or not he or she wants to continue to perform the licence agreement (German Insolvency Act, section 103). If he or she chooses not to continue the licence agreement, the agreement is terminated. On the other hand, if he or she chooses to continue to use the licensed intellectual property right, royalty payments due after the day the commencement of insolvency was applied for become debts of the estate, which are treated with priority over the debts to creditors in insolvency (German Insolvency Act, section 55(1) No. 2, section 53).

It is generally assumed – although some doubts have been expressed with respect to trademarks – that after the day the commencement of insolvency was applied for, the licensor cannot terminate the licence agreement on the ground that the licensee is in default of royalty payments due prior to that day, or that the financial circumstances of the licensee have deteriorated (analogous application of section 112 of the German Insolvency Act, which refers to lease contracts). Also a clause providing for termination or the right to terminate upon the commencement of insolvency proceedings is considered to be void.

However, a provision in the licence agreement that allows the licensor to terminate the agreement, before the commencement of insolvency is applied for, on the grounds of payment default, indebtedness or a deterioration of the financial circumstances of the licensee is valid. Further, a provision that allows for the termination of the agreement in the case of late payments or where the licensee cannot meet an obligation for a certain minimum use of the licensed intellectual property right even after commencement of insolvency proceedings was applied for is generally considered to be valid.

With respect to sub-licences that the licensee may have granted, the principles laid out in question 38 are expected to apply also in the case of bankruptcy of the licensee, be it that the insolvency administrator chooses not to continue to use the licensed intellectual property right, or be it that the licensor terminates the agreement prior to or after the application for the commencement of insolvency proceedings.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

In principle, the parties to an agreement are free to choose the law that governs the agreement (Regulation (EC) No. 593/2008 (Rome I), article 3(1)). However, a German court would apply overriding mandatory provisions of German and European law, namely, provisions the respect of which is regarded as crucial for safeguarding Germany's or the EU's

public interests (Rome I, article 9(2)). In particular, European antitrust law can be applied in order to assess the validity of the provisions of a licence agreement.

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

Arbitration clauses are common in licence agreements and recognised by the German Civil Procedure Code (section 1029). A valid arbitration clause has the effect that a complaint brought before a German court has to be dismissed for lack of jurisdiction if the defendant so requests prior to the oral hearing (German Civil Procedure Code, section 1032(1)). This is true even if the place of arbitration is not in Germany (German Civil Procedure Code, section 1025(2)). Therefore, arbitration proceedings can be held in another jurisdiction.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

Foreign judgments are, in general, enforceable in Germany. Enforcement requires that the foreign judgment has been declared enforceable by a German court.

For judgments from EU member states and from a number of other jurisdictions (Iceland, Norway and Switzerland, contracting parties of the Lugano Agreement), the procedure and the prerequisites for the declaration of enforceability is simplified, and basically only require that the judgment from the foreign jurisdiction is enforceable in that jurisdiction and that the interested party makes an application with the competent German court (see articles 38 and 39 of Council Regulation (EC) No. 44/2001 (Brussels I)).

For judgments from other jurisdictions, the interested party needs to sue the defendant at the competent German court for a declaration

of the enforceability of the foreign judgment in Germany (German Civil Procedure Code, section 722). The German court will not review the lawfulness of the foreign judgment, but it will declare the foreign judgment enforceable in Germany only if the judgment from the foreign jurisdiction is final and the recognition of the foreign judgment in Germany is not excluded by law (German Civil Procedure Code, section 723). Recognition is excluded by law, for example, if it conflicts with German public policy (German Civil Procedure Code, section 328).

Foreign arbitral awards are recognised and enforced by German courts in accordance with the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (German Civil Procedure Code, section 1061), to which Germany is a party.

Collective arbitration is rare in Germany although it is known in certain types of shareholder suits (see the 'DIS Supplementary Rules for Corporate Law Disputes'). Unless explicitly agreed upon by the parties, collective arbitration is not available. Therefore, a contractual waiver is not necessary.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Permanent and preliminary injunctive relief is available in Germany. An injunction granted by a first instance court can regularly be immediately enforced, upon provision of a security bond, even if appeal is pending.

At least for patents, the right to injunctive relief cannot be waived with in rem effect (LG Mannheim, case No. 7 O 94/08), but the assertion of the right to injunctive relief can be waived contractually in an agreement with a third party. In this case, the third party has a defence against the claim for an injunction if the third party is sued for infringement (RGZ 153, 329, 331). Restrictions to enforceability of such a waiver exist where standard terms and conditions are used (see question 36).

Parties may waive their entitlement to claim (specific categories of) damages, such as loss of profits, in an arbitration clause or any other clause of an agreement. However, restrictions exist where standard terms and conditions are used (see question 36).



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Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

A foreign licensor can establish business in India either by way of a joint venture or foreign direct investment (FDI) or by establishing a liaison office in India. There are no restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor.

For the foreign licensor interested in conducting business through FDI, the government has opened some sectors to automatic foreign participation while in others approval is required and in certain other sectors, equity participation is capped. Similarly the foreign licensor can establish a liaison office in India subject to meeting the guidelines issued by the Ministry of Commerce. Approvals are required from the government for the reserved industries such as the chemical industry, defence, etc.

Some businesses in India are given automatic approval, for example, businesses where technology is required to set up the business.

Any inflow and outflow of funds between an international franchisor and an Indian franchisee is regulated by the Foreign Exchange Management Act 1999 (FEMA) and the rules set out thereunder. As per the Foreign Exchange Management (Current Account Transaction) Rules 2000 the prior approval of the Reserve Bank of India (RBI) is required for making remittance outside India for use or purchase of a trademark (rule 5 read with Schedule III(16)).

Some businesses are barred in India as being illegal, including casino businesses or businesses relating to religion, counterfeiting businesses, and the business of trafficking of human beings, prostitution, etc.

There is no requirement for a foreign licensor to have a branch office or subsidiary in India for the purpose of entering into a licence agreement. If the foreign licensor wishes to establish a business entity in India, it may submit a request to the Registrar of Companies within a stipulated time frame.

Filing for a licence at the Patent Office or at the Copyright Office is not necessary before a foreign licensor can establish a business entity or joint venture.

Foreign companies may appoint licensees in India to sell their products as per the terms of the licence agreement. Licensees typically pay fees to the licensor by way of royalty and technical know-how fees. Until 2009, as per the guidelines of the government of India, royalty payments at the rate of 8 per cent on exports and 5 per cent on domestic sales (without any restriction on the duration of payment) and a lump sum payment not exceeding US\$2 million (in the case of technology transfer) could be paid directly through an authorised dealer. In addition, where there was no technology transfer involved, a royalty up to 2 per cent for exports and 1 per cent for domestic sales was allowed under an automatic route on the use of trademarks and brand names of the foreign collaborator. In cases where the payment exceeded the

above-mentioned thresholds, prior approval of the government of India was required.

However, the government of India (Press Note No. 8 (2009 Series), 16 December 2009) has liberalised the policy on foreign technology collaboration agreements and the financial upper limits on payment of lump sums and royalty fees for the import of technology and the use of the trademark and brand name has been removed.

At present, no approvals are required for such appointment of a licensee in India. The licensor and licensee relationship is a contractual relationship governed by the terms of the licence agreement.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

There are various types of licensing arrangements depending on the nature of the business and the extent to which such licences are to be granted. The most notable agreements, the terms of which differ considerably, are:

- software licence agreements (eg, end-user licence agreements, master agreements, shrink wrap agreements, click wrap agreements, browse wrap agreements);
- trademark licence agreements;
- patent licence agreements;
- copyright licence agreements;
- technology licence agreements;
- research collaboration agreements;
- brand licensing;
- compulsory licences and statutory licences;
- service licences;
- cross-licensing (agreements whereby owners of different IPs such as patents or know-how, license rights to one another, for example, Apple's and Microsoft's cross-licensing agreement);
- music licensing;
- character and entertainment licensing;
- corporate trademark and brand licensing (eg, ABC launches its products in a co-venture with Reliance in India, Tata Starbucks);
- patent, trademark, copyright and design licences with and without goodwill; and
- exclusive and non-exclusive licences.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

There is no specific legislation in India that describes licensing. However, it is dealt with within the ambit of various intellectual property laws and other legislation including the Trade Marks Act 1999 (registered users – sections 48 to 54, the Copyright Act 1957 (sections 30 to 32) and the Patents Act 1970 (Chapter XVI).

Some key laws that come into play when trademarks are licensed include:

- the Indian Contract Act 1872;
- the Sale of Goods Act 1930;
- banking and forex laws;
- the Specific Relief Act 1973;

- the Competition Act 2002;
- the Trademarks Act 1999;
- the Patents Act 1970;
- the Copyright Act 1957;
- the Designs Act 2000;
- the Geographical Indication of Goods Act 1999;
- common laws including trade secret laws;
- the Consumer Protection Act 1986;
- labour laws;
- taxation laws (including excise laws, income tax laws, VAT);
- the Foreign Exchange Management Act 2000;
- the Indian Stamp Act 1899;
- the Registration Act 1908;
- the Indian Easement Act 1882;
- environmental laws;
- the Indian Penal Code 1860;
- immigration laws;
- legal metrology laws (laws relating to weights and measures);
- insolvency laws;
- liquidation laws;
- land laws;
- factory laws;
- the Information Technology Act 2000;
- the Code of Civil Procedure 1908;
- the Arbitration and Conciliation Act 1996; and
- various international treaties.

4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

There are no statutory provisions governing disclosure pertaining to international licensing in India. However, the licensor has a duty towards the licensee to transfer to him or her a clear title and not to make any misrepresentations. Misrepresentation by the parties to the contract renders the contract voidable under the Indian Contract Act 1872 and is punishable under the Indian Penal Code 1860.

It is advisable for the licensor to protect its know-how, including trademarks, trade secrets and other proprietary information, by entering into a non-disclosure agreement or memorandum of understanding with the prospective licensee. When drafting such agreements, it is imperative to ensure their enforceability under Indian contract law and the relevant intellectual property laws, and to ensure they are watertight. It may also be wise to seek to enter into such agreements with employees and other third parties or consultants of the licensee who might come across the protected information.

There is a requirement to register the grant of international licensing rights for patents with authorities in India. Section 69 of the Patent Act 1970 states that where any person becomes entitled by assignment, transmission or operation of law to a patent or to a share in a patent or becomes entitled as a mortgagee, licensee or otherwise to any other interest in a patent, he or she shall apply in writing in the prescribed manner to the Controller for the registration of his or her title or, as the case may be, of notice of his or her interest in the register.

Under the Trade Marks Act 1999, it is not compulsory or obligatory to record trademark licences in India. Where the parties desire to record the licence agreement under the Trade Marks Act, the licensor can apply to the Registrar of Trademarks to record the licensee as the 'registered user'. For recordal of the licence agreement under the Trade Marks Act, the licensor and the licensee are required to jointly apply to the Registrar along with the following particulars:

- the licence agreement in writing and duly authenticated copy thereof, entered into between the licensor and the licensee; and
- an affidavit by the licensor giving the following particulars:
- the particulars of the relationship between the licensor and the licensee and whether the licence agreement is exclusive or non-exclusive;
- a statement of the goods and services in respect of which the licence is granted;
- a statement of any conditions or restrictions under the agreement including restrictions on territory; and
- whether the licence is to be for a period and, if so, the duration thereof or if it is to be without limit of period.

5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

Obligations relating to good faith, fair dealing, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal that may affect an international licensing relationship are implicit in much of India's legislation.

Indian law requires that the patent must be used in India, failing which anybody may apply for the grant of a compulsory licence. There may be a situation where a patented product is available in India but at a very high price or it is not easily available. In such a situation, a compulsory licence may also be granted. Section 84(1) of the Patents Act 1970 states that any person interested (at any time after the expiration of three years from the date of the sealing of a patent) may apply for grant of a compulsory licence alleging that the reasonable requirements of the public with respect to the patented invention have not been satisfied or that the patented invention is not available to the public at a reasonable price. Similarly, section 31 of the Copyright Act 1957 contains provisions for the compulsory licence of copyrighted work.

Section 110 of the Patents Act 1970 states that licensee shall be entitled to call upon the patentee to take proceedings to prevent any infringement of the patent, and, if the patentee refuses or neglects to do so within two months after being so called upon, the licensee may institute proceedings for the infringement in his or her own name as though he or she were the patentee, making the patentee a defendant; but a patentee so added as defendant shall not be liable for any costs unless he or she is present at and takes part in the proceedings. Section 61 of the Copyright Act 1957 states that in every civil suit or other proceeding regarding infringement of copyright instituted by an exclusive licensee, the owner of the copyright shall be made a defendant. Section 52 of the Trade Marks Act 1999 states that the registered user may institute proceedings for infringement in his or her own name as if he or she were the registered proprietor making the registered proprietor a defendant.

The good faith terms are covered under the Sale of Goods Act 1930 under the heading 'Conditions and warranties' under section 12, which lays down obligations for due care in terms of quality and description of the goods of the seller. In cases where the licence agreement involves a licence to manufacture the product along with use of the brand, the courts carefully scrutinise the quality control provisions of the agreement to ascertain liability under the consumer protection laws. It is thus essential that the applicable indemnity clauses be drafted with extreme caution and foresight to provide for such contingencies. In cases of food adulteration, the courts have explicitly stated that the act of adulteration is dangerous and that liability cannot be avoided owing to lack of knowledge and good faith of the seller. In such cases, liability is imposed on the licensor, the licensee and in some cases the vendor. As such matters might involve press attention and may affect the goodwill and reputation of the business, it is imperative that utmost care be taken to ensure compliance with the standards established by the Indian government.

The court-imposed obligation related to good faith or fair dealing includes common law rights as well as moral considerations. To take an example, if the licensor terminates the licence for the licensee to distribute medicines for AIDS free of charge for the benefit of the general public, the court may hold that free distribution of medicine is not a good cause for termination of the licence. To take another example, in the case of non-renewal of the licence, the court may allow a licensee to use the trademark for a specific period (say six months or so) even after the termination or expiry of the period of the licence to enable the licensee to exhaust its inventory. Similarly, where the interest of the shareholders is involved or where the licensee in good faith sets up a factory, makes substantial investments in labour and technology and takes steps to improve the business, the court may hold non-renewal or termination of the licence to be unreasonable and may order the licensor to pay reasonable compensation to licensee. Also, the court may grant the licensee right to first refusal even if the licence is silent on the same.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

No specific statute defines the difference between licensing and franchising. However, the two words are different for all practical purposes. The franchisor gives the franchisee everything needed to conduct the franchise business (the trademark, trade dress, look and feel, products, etc) whereas the licensor usually licenses only its trademark or technology or both to be used by the licensee in the manufacture of its goods or rendering of services.

Licences are expressly covered under the Patents Act 1974 and the Copyright Act 1957. The Trade Marks Act 1999 does not expressly use the term 'licence'. However, the Trade Marks Act states that a person other than the registered proprietor of a trademark may be registered as a registered user (section 48 of the Trade Marks Act 1999).

Licensees and franchisees fall under the definition of a permitted user under the Trade Marks Act 1999. Under section 48 of the Trade Marks Act, the permitted use covers use of a registered trademark by a registered user or any other authorised third party. Under section 52 of the Act, only the registered user can institute infringement proceedings in his or her own name. It can also implead the licensor as a defendant in the proceedings; however, the licensor is liable for costs in such a case only if he or she makes an appearance and takes part in the proceedings.

The Trade Marks Act is silent on the licensing of unregistered trademarks. The licensing of unregistered trademarks is covered under common law. Common law principles are also applicable for unregistered trademarks.

Section 64 clause (47) of the Finance Act 1994 defines franchise as:

an agreement by which the franchisee is granted representational right to sell or manufacture goods or to provide service or undertake any process identified with franchisor, whether or not a trademark, service mark, trade name or logo or any such symbol, as the case may be, is involved.

There is no single comprehensive regulation governing licensing and franchising activities. The following laws govern licensing and franchising in India:

- the Indian Contract Act 1872;
- the Trade Marks Act 1999;
- the Patents Act 1970;
- the Copyright Act 1957;
- the Designs Act 2000;
- the Geographical Indication of Goods Act 1999;
- the Consumer Protection Act 1986;
- labour laws;
- taxation laws;
- the Foreign Exchange Management Act 2000;
- the Specific Relief Act 1963;
- the Sale of Goods Act 1930;
- the Stamp Act 1899;
- the Registration Act 1908;
- the Easement Act 1882; and
- the Competition Act 2002.

In *Gujarat Bottling Company Limited v The Coca-Cola Company* (AIR 1995 SC 237), the Supreme Court held that a clause restricting the franchisee's right to deal with competing goods in the franchise agreement is intended to facilitate sale of the franchisee's goods and thus cannot be regarded as restraint of trade. However, a clause in the franchise agreement restraining a franchisee from operating a similar business under any name after termination of the agreement was held to be void in *IEC School of Art & Fashion v Gursharan Goyal* (1998 PTC 493 (Del));

- common law rights; and
- environmental law.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

India is a party to all three conventions. India became a member of the Paris Convention for the Protection of Industrial Property and the Patent Cooperation Treaty on 7 December 1998. India joined TRIPs at its inception on 1 January 1995.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

The licensee can be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations unless the licensor has committed misrepresentation or fraud on the licensee. The licensee is also prohibited under the law of estoppel to contest the validity of a foreign licensor's intellectual property rights, once contracted as a licensee.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

Invalidity or expiry of registration of a trademark does not have any effect on a related licence agreement since the trademark rights can also be acquired through use under common law, but invalidity or expiry of registration of a patent or design renders the licence on that patent or design invalid. The invalidity or expiry of registration of a copyright would also render the licence invalid since the work would go into the public domain, unless protected otherwise, such as by a trademark.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

No. India is a 'first to use' country and thus original registration or evidence of use in the jurisdiction of origin is not necessary prior to the registration of intellectual property.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Unregistered trademarks can be licensed. However, since a patent is required to be compulsorily registered or filed for protection on priority in order to gain protection, the patent licence should be in writing and registered (section 68 of the Patents Act 1970). However, inventions that are not patented can be protected as trade secrets without registration.

Similarly, copyright law requires the licence to be in writing (section 30 of the Copyright Act 1957) although it is not mandatory to register a copyright with the Copyright Office.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

Validity

Patents

According to section 69(1) of the Patents Act 1970, where any person becomes entitled by assignment, transmission or operation of law to a patent or to a share in a patent or becomes entitled as a mortgagee, licensee or otherwise to any other interest in a patent, he or she shall apply in writing in the prescribed manner to the Controller for the registration of his or her title or of notice of his or her interest in the register.

Trademarks

Trademark law allows the licensee to either be a registered or unregistered user. The licensee of a trademark enjoys the same rights as those enjoyed by a registered trademark proprietor. Thus, the benefit of use of the mark by an unregistered user also accrues to the

registered proprietor. The Trade Marks Act also recognises non-registered licensed use. The benefit of recording a licence agreement with the Registrar of Trademarks is that the licensee can institute proceedings for infringement in his or her own name. Please note that the licensor can unilaterally apply in writing to the Registrar of Trademarks to cancel the registration of the licence agreement. No consent is required from the licensee for such cancellation.

Copyrights

The owner of a copyright in any existing work or the prospective owner of the copyright in any future work may grant any interest in the right by licence in writing, signed by him or her, or by his or her duly authorised agent, under section 30 of the Copyright Act 1957. Further, licence of copyright in any work shall identify such work, and shall specify the rights assigned and the duration and territorial extent of such assignment. It shall also specify the amount of royalty payable, if any, to the author or his or her legal heirs if the licensee does not exercise the rights licensed to him or her within a period of one year from the date of licence; the licence in respect of such rights shall be deemed to have lapsed after the expiry of the said period unless otherwise specified in the licence agreement. Further, if the licensee fails to make sufficient exercise of the rights assigned to him or her, and such failure is not attributable to any act or omission of the licensor, then the Copyright Board may, on receipt of a complaint from the assignor and after holding such inquiry as it may deem necessary, revoke such assignment (sections 19, 19A and 30A of the Copyright Act 1957).

Opposable to a third party

Third parties may oppose the licence, for example, when the same breaches competition laws or consumer protection laws, or goes against morality, public health and security or public policy. Under the Trade Marks Act, a third party may oppose the grant of trademark licence if it is likely to cause confusion or deception in the minds of consumers as to the origin of the product or service (see section 40).

Security

Trademarks

It is not mandatory to file the document that creates a security over the trademark under the Trade Marks Act 1999. The Act does not set out any procedure or any specific form for recording a security interest, such as a mortgage. If required, however, a document can be filed with the Trade Marks Registry with a simple cover letter more for evidentiary purposes. If there is a change in the proprietor of the trademark under the security or the charge, that change must be recorded with the Trade Marks Registry. However, if no trademark application has been filed or no registration has been obtained for the trademark in India, no documents need be filed. It is usually a better practice to file the documentation with the Registrar of Companies as part of board resolutions empowering the creation of security or vested interests.

Copyright

It is not mandatory to file a document that creates a security over the copyrighted work (sections 18 and 19, Copyright Act 1957 as amended by the Copyright (Amendment) Act 2012). However, if required, a document that creates a security can be filed with the Copyright Registry, with a simple cover letter more for evidentiary purposes. If there is a change in the proprietor of the copyright under the security or charge being created, the change must be recorded with the Registrar of Copyright. However, if no application has been filed for the registration of copyright, or no registration has been obtained for the copyrighted work in India, no such documents need be filed.

Patents

Registration of the agreement that creates a security interest in the patent is compulsory under the Patents Act 1970. Any security interest or a mortgage in a patent is not valid unless it is in writing and registered with the Controller General of Patents within a period of six months (or within a further period not exceeding six months in the aggregate as the controller on the application made allows) under section 68 of the Patents Act 1970. The document must contain all the terms and conditions governing their rights and obligations. The application for registration of the document must be filed in Form 16 with the Controller of Patents.

Designs

A licence, mortgage or any other interest in a registered design is not valid unless it is in writing and the agreement between the parties clearly sets out the terms and conditions governing the rights and obligations (section 30, Designs Act 2000). The agreement creating a mortgage or any other interest in the registered design must be filed with the Controller General of Designs on Form 12 within six months of the execution of the instrument or within a further period not exceeding six months in the aggregate as the controller on the application made allows.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

A foreign owner or licensor of intellectual property may institute proceedings against a third party for infringement without joining the licensee as a party to the proceedings.

Patents

The licensee of an exclusive patent can, where the subject matter of the patent is a product or process, use the exclusive right to prevent third parties, who do not have his or her consent, from the act of making, using, offering for sale, selling or importing for those purposes that product in India or the product obtained directly by that process in India (section 48).

Thus the proprietor of the patent has to be included and made a part of the infringement proceedings if being initiated by the licensee as the principle defendant or as co-owner of the patent. Until the licensee has an exclusive right in terms of the patent obtained and registered it with the Patent Office within six months it cannot initiate or charge infringement proceedings against the third parties.

The exclusive licensee has the right to institute a suit in respect of any infringement of the patent committed after the date of the licence (section 109 of the Patent Act 1970). The non-exclusive licensee also has the right to institute a suit in respect of any infringement of the patent committed after the date of the licence provided the patentee refuses or neglects to institute proceedings within two months after being so called upon (section 110 of the Patent Act 1970).

Trademarks

Section 29(1) of the Trade Marks Act states:

A registered trade mark is infringed by a person who, not being a registered proprietor or a person using by way of permitted use, uses in the course of trade, a mark which is identical with, or deceptively similar to the trade mark in relation to goods or services in respect of which the trade mark is registered and in such manner as to render the use of the mark likely to be taken as being used as a trade mark.

A foreign owner or licensor of a trademark can institute proceedings against a third party for infringement without joining the licensee as a party to the proceedings.

However, a trademark licensee cannot institute a proceeding against an infringer of the licensed intellectual property without the consent of the owner or licensor except when an agreement is entered into to the contrary between the licensor and the licensee.

Section 52 of the Trade Marks Act 1999 states that a registered user may institute proceedings for infringement of a trademark in his or her own name as if he or she was the registered proprietor, making the registered proprietor a defendant.

Further, a passing-off action cannot be filed by the licensee of an unregistered trademark until consented to by the licensor.

Copyright and registered designs

An 'exclusive licence' means a licence that confers on the licensee or on the licensee and persons authorised by him or her, to the exclusion of all other persons (including the owner of the copyright), any right comprised in the copyright in a work, and the 'exclusive licensee' shall

be construed accordingly. Thus only a person having an exclusive right over the copyright can commence proceedings in the case of infringement of the same.

Section 61 of the Copyright Act 1957 states that in every civil suit or other proceeding regarding infringement of copyright instituted by an exclusive licensee, the owner of the copyright shall be made a defendant.

A non-exclusive licensee does not possess the right to claim for such infringement. This condition is also applicable for registered designs.

The licensee can be contractually prohibited from instituting proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

In India, no legislation enables a licensee to sub-license the trademark to a third party until it is expressly or impliedly mentioned in the licence agreement entered into between the licensor and the licensee. Where there is a specific condition captured in the licence agreement stating that the licensee has no right to sub-license the trademark then it contractually binds the licensee from such a right.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

India is a 'first to file' jurisdiction for patents. A foreign licensor can license the use of an invention subject to a patent application even though the patent has not been issued yet.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

Software

The basic three-part test of novelty, inventive step (non-obviousness) and industrial application is followed in India in order for a patent to be granted. Further, section 3(k) of the Patents Act 1970 lists non-patentable subject matter. It provides that mathematical or business methods, computer programs per se and algorithms are not patentable.

While the law on the patentability of software in India has not yet been considered by the Indian courts, the Intellectual Property Appellate Board (IPAB) and the Patent Office have issued orders interpreting section 3(k). In *Allani v Controller of Patents* (27 March 2013) the IPAB upheld the controller's order refusing an application for a method and device for accessing information sources and services on the web. The applicant's claim was that the invention reduced the time taken to access searched-for information. While copyright affords adequate protection against software piracy, the protection it provides against the non-literal copying of software falls short, leaving the functional aspect of software unprotected. As per the guidelines, by the Draft Manual of Patent Practice and Procedure by the Indian Patent Office claims to computer programs per se, computer-readable media with programs recorded thereon, methods implemented by software that lack technical effect and methods with a technical effect but lacking hardware support in the specification are not patentable.

However, computer programs operating on specific hardware may be patentable. To be patentable, software must be used in relation to specific hardware or, more precisely, a device or apparatus, and the claim must be for the device or apparatus used in conjunction with the software component. Besides novelty, inventive step and industrial applicability, the applicant must prove that the technical effect of the invention is substantial and that it results from the interoperability of the hardware and software components.

Business processes or methods

In 2008, the Indian Patent Office released a Draft Manual of Patent Practice and Procedure providing guidelines on the types of claim allowed in respect of software-related inventions. The guidelines state that in respect of a method:

the method claim should clearly define the steps involved in carrying out the invention. It should have a technical effect. In other words, it should solve a technical problem [...] The claim orienting towards a 'process/method' should contain a hardware or machine limitation.

In *Yahoo! Inc v Assistant Controller of Patents* (8 December 2011) the IPAB rejected an application for a computer-implemented business method. The IPAB observed that the technical advance that was claimed over the existing art was merely an improvement in the method of doing business, and therefore the fact that there was an advance did not improve the case.

Living organisms

Up to 2002, as per the prevailing practice in the Patent Office, patents were not granted for inventions relating to:

- living entities of natural or artificial origin;
- biological materials or other materials having replicating properties;
- substances derived from such materials; and
- any processes for the production of living substances or entities including nucleic acids.

However, patents could be granted for processes of producing non-living substances by chemical processes, bioconversion and microbiological processes using micro-organisms or biological materials. For instance, claims for processes for the preparation of antibodies or proteins or vaccines consisting of non-living substances were allowable.

In 2002, the Calcutta High Court, in its decision in *Dimminaco AG v Controller of Patents and Designs*, opened the doors for the grant of patents to inventions where the final product of the claimed process contained living micro-organisms. The court concluded that a new and useful art or process is an invention, and where the end product (even if it contains living organism) is a new article, the process leading to its manufacture is an invention.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

There is no specific legislation regulating the protection of trade secrets in India. India follows common law principles for protection of confidential information or know-how. It therefore becomes imperative to strengthen the confidentiality around the trade secret by ensuring that contractual obligations are enforced on persons who are allowed to use the trade secret, especially when it is licensed to a third party. So, if the information constituting the trade secret is disclosed without authorisation, legal action can be brought against the party who has disclosed it under the law of contracts and common law. However, in such a case the protection of the trade secret will be lost and it becomes available in the public domain. It is essential to maintain proof of creation of a trade secret either by mailing the information to oneself and retaining postmarked and sealed envelopes or by depositing a copy of the information with a third party that would maintain a dated copy.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

Yes, the law allows a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties both during and after the term of the licence agreement. Careful restrictions should be placed upon the licensee to protect the IP of the licensor, most importantly strict confidentiality obligations should be imposed on the licensee.

Rights over the improvements to which the licensee may have contributed are part of the subject matter of the contract.

19 What constitutes copyright in your jurisdiction and how can it be protected?

Copyright is a right given by the law to creators of:

- original literary, dramatic, musical and artistic works;
- cinematograph films; and
- sound recordings (section 13 of the Copyright Act 1957).

Copyright is a bundle of rights including the reproduction rights, the right to issue copies, the right to communicate the work to the public, and make adaptations and translations of the work, and the right to perform the work in public. There could be slight variations in the composition of the rights depending on the kind of work.

Copyright in India is protected automatically as soon as the work is created. The Copyright Act 1957 also provides the provisions for the registration of copyright but registration is not mandatory.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

In cases where a licensee develops any artwork, software or other improvements to the assigned copyright, the licensee can assign such rights contractually unless the contract between the licensor and licensee states that artwork, software improvements and other works would be a copyright of the licensor and not the licensee.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

In India, the Copyright Act 1957 grants protection to original expression and computer software is granted protection as a copyright unless it leads to a technical effect and is not a computer program per se. For a copyright protection, computer software needs to be original and sufficient effort and skill must be put in for it to be considered original. Section 19(5) of the Copyright Act 1957 states that if the period of assignment is not stated, it shall be deemed to be five years from the date of assignment or licence (see section 30A of the Copyright Act 1957). Thus the question of a perpetual licence for software is negated and in such cases the term of the copyright on software can be renewed by the parties.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

According to section 30 of the Copyright Act 1957, no licence of the copyright in any work shall be valid unless it is in writing signed by the licensor or by his or her duly authorised agent (see section 30A of the Copyright Act 1957). Thus the same condition applies to the licensing of software (copyright subject). Section 19(6) imposes a restriction on territorial limits for the extent of the licensed rights, which says that if such a territorial limit is not prescribed it will be assumed to be within India. The parties are required to follow the EXIM policy of India prior to granting software licences.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensee bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

The licence agreement entered between the owner of the software and the prospective licensee should specify expressly that the licensee can make improvements and modifications to the software in future if needed. Who owns the copyright in the improvements and modifications to the licensed software is a question of fact, the answer to which has to be derived from the terms of the contract.

Further, a distinction has to be drawn between contract of employment or service and contract for employment or service for this purpose. If the licensee making the improvements and modifications to the licensed software is under the contract of service (employer-employee relationship), the improvements and modification will belong to licensor. If the licensee making the improvements and modifications to the licensed software is under the contract for service (contractor-client relationship), improvements and modifications will belong to the licensee.

Again, whether a software licensee can obtain bug fixes, upgrades and new releases from the licensor in the absence of a contractual provision to that effect depends on whether the licensee is under a contract of service or contract for service.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

Yes, a software licensor may include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

Courts have recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software. However, at the same time, they have been following the principle of due care and attention. The question that has to be kept in mind while determining the liability of the licensor is whether it took due care to make the software error-free but could not succeed owing to external factors such as vis major, accident, act of third parties, etc.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

There are no legal restrictions in India with respect to implementing upgrades, additional programs, features or functions or changes. All such changes and upgrades are governed by the terms of the contract. The licensor may periodically provide for upgrades, which are subject to prior notification to the licensee. The licensee on his or her own volition may choose to move to the upgraded version of the software or may continue to function on the existing software. The upgrades are generally provided in the form of shrink wrap contracts that come into force once the licensee clicks on the 'I accept' button.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

India does not have any statutory licensing restriction imposed on open source software that limits use, modification or redistribution. The access to source code is subject to compliance with the terms of free and open distribution. Through open sourcing the software developers make freely available to anyone the source code of the software for alteration, sharing and distribution. The software released through open sourcing comes under a special class of licence known as GPL, encouraging and permitting users to use, redistribute and improve the source code. Licensing restrictions nevertheless exist regarding authorship right under copyright.

Article 19(1)(a) of the Constitution of India, which gives the freedom of speech and expression to individuals, is attracted herein. The internet is a strong medium to exercise the right of freedom of speech and expression and thus India does not have any statutory licensing restriction imposed on the open source software that limits use, modification or redistribution.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

There is no statutory legislation, or approvals, that govern the frequency of payments of interest, royalties, fees and costs. The licence agreement should expressly include such interest and costs payable after the licensor passes his or her rights to the licensee. The rate of interest or penalty, etc, should not be unreasonable. The reasonableness of amount is a question of fact depending upon the facts and circumstances of each case. However, in estimating the loss or damage

Update and trends

One of the emerging trends in licensing world is character licensing. With a rise in awareness and demand among buyers for popular character-inspired merchandise in the market such as Chhota Bheem, Noddy, Spiderman, etc, a growing need is to strengthen the legal system governing the use and misuse of such characters. High demands often pave the way for piracy or parallel imports and that is where the laws need to be developed further.

arising from a breach of contract, the means that existed of remedying the inconvenience caused by the non-performance of the contract must be taken into account (explanation to section 73, the Indian Contract Act 1872).

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

Yes, there exist restrictions on remittances of foreign currency, the procedure of which is governed under FEMA. However, in line with the Press Note issued in 2009 by the Ministry of Commerce and Industry, and effective immediately thereafter, the government of India had reviewed the earlier policy and decided to permit from then on payments of royalties, lump sum fees for transfers of technology and payments of use of trademarks and brand names on the automatic route (ie, without any approval needed from the government of India). All such payments will, however, continue to be subject to the Current Account Transactions Rules 2000, as amended from time to time.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

Foreign transactions that involve technical know-how including intellectual property rights assignment are liable to be taxed as per the Income Tax Act 1961. This includes sale of designs, lending services of technicians, royalties and licensing. Sections 44D and 115A provide for special methods for calculating income by way of royalties and technical services of foreign companies and non-resident Indians. The rate of tax fixed under section 44D is 20 per cent of the gross amount. Any income by way of dividend, interest and income from mutual funds is charged at 20 per cent. Under section 115, income by way of royalties or fees for technical assistance is charged at 20 per cent. Royalties include consideration for transfer of all or any rights, which includes the right to grant licences with respect to that of copyright in any book to an Indian concern or in respect of any computer software to a person resident in India.

India has entered into double tax agreements with some of the countries.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

While the court would issue damages in Indian currency, based on the court order, the banks or RBI can be approached to permit remittance of money to the plaintiff or foreign entity in the concerned currency.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

The Competition Act 2002 aims to prevent practices that have an adverse effect on competition, to promote and sustain competition in the markets, to protect the interests of consumers and to ensure freedom of trade. Predominantly, the Act focuses on activities and agreements that hinder competition or unnecessarily hamper the functioning of the market forces, which are essential to healthy competition. It imposes strict bans on anti-competitive agreements and cartels that have, or are likely to have, an appreciable adverse effect on the economy.

Therefore, when the licensee is the only seller in the market and the licence agreement allows it unilaterally to change the price of the product, this is considered illegal as it amounts to abuse of a dominant position. Further, if a group of licensors enters into a combination that may

be detrimental to competition, this will be void. However, this does not extend to share subscriptions or financing facilities or any acquisition, by a public financial institution, foreign institutional investor, bank or venture capital fund, pursuant to any covenant of a loan agreement or investment agreement.

The Act aims to safeguard the intellectual property rights of the licensor. Section 5(3) allows the licensor to impose reasonable restrictions required to protect its intellectual property rights.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

There are no legal restrictions with respect to the duration of the licence except that the Copyright Act 1957 states that if the contract is silent on the duration of the licence, it is considered to be five years (section 19).

The licence may be exclusive or non-exclusive. There is no legal restriction in respect of the exclusivity of the licence.

There are no legal restrictions in respect of internet sales prohibitions except when the same is for illegal goods or services or activities (eg, gambling activities on the internet) or is covered under the Information Technology Act 2000.

The licence may contain a prohibition on the licensor and licensee competing with one another in the jurisdictions they are operating in; the same depends upon the terms of the contract.

There are no legal restrictions in respect of grant-back provisions and the same depends on the contractual arrangement between the parties.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

Yes, courts in our jurisdiction have held that certain uses (or abuses) of IPR have been anti-competitive. For instance, in a recent case (*Telefonaktiebolaget Lm Ericsson v Competition Commission of India*, W.P.(C) 464/2014), Indian smartphone manufacturers, such as Micromax and Intex had alleged that Ericsson had demanded excessive royalties from them for its Standard Essential Patents (SEPs) in respect of technologies that are used in mobile handsets and network stations. It was held that by virtue of such anticompetitive acts, Ericsson had abused its position of dominance.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

An intellectual property infringement indemnity provides the customer with limited protection against claims, by persons who are not parties to the contract (known as 'third parties'), based on allegations that the customer's use of the licensed software infringes the third party's intellectual property rights (eg, copyright, patents and trade secrets).

An intellectual property infringement indemnity usually imposes two distinct obligations on the software vendor: (i) an obligation to defend the licensee against IP infringement claims; and (ii) an obligation to indemnify (reimburse) and hold harmless (protect) the licensee against obligations and liabilities (including court awards and settlement payments) resulting from IP infringement claims.

The scope of such an infringement indemnity can be adjusted using the same variables – beneficiaries, covered claims, time restrictions and financial limitations as apply to a general indemnity. An IP infringement indemnity usually requires the licensee to comply with the same kinds of procedural obligations: prompt notice of a covered claim, conduct and control of defence or settlement of a covered claim and cooperation regarding a covered claim as apply to a general indemnity.

Such infringement indemnities are often subject to exceptions for certain kinds of infringement claims (eg, certain patent infringement claims), exclusions for infringement claims caused by certain circumstances (eg, the licensee's modification of the licensed software or unauthorised use of the licensed software), and limitations on the software vendor's total financial liability.

- 36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?**

The parties can contractually agree to waive or limit certain types of damages. The disclaimers and limitations of liability are generally enforceable between the parties to the agreement. One exception is that a sub-licensee may not be bound by the waiver or limitation of damage between the licensor and licensee.

Termination

- 37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?**

The law does not impose any condition on, or otherwise limit, the right to terminate or not to renew an international licensing relationship or require the payment of an indemnity or other form of compensation upon termination or non-renewal between the parties. As with any type of commercial agreement, a licence agreement should have both a defined term and provisions outlining when a party may terminate the agreement, and for what reason. It is also recommended to deal with the effect of termination in advance, so that each party can plan an exit strategy with full knowledge of the consequences of any termination of the agreement.

- 38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?**

As the terms of any licence agreement are binding upon the parties that have entered into the agreement, if the clause specifying the termination period of the licence suffices such termination and expiration, the same will automatically have an impact on any sub-licence granted by the licensee in absence of any particular provision mentioned in the agreement. If the sub-licensed party still continues to use the licensed intellectual property right such an act will lead to infringement implications. However, in some situations (depending on the terms of the licence), the licensee may be the agent of the licensor and thus the sub-licensee may be a sub-agent. In such cases, the licensor is directly responsible to the sub-licensee on the representations of the licensee and the termination of the licence between licensor and licensee may not automatically lead to the termination of the sub-licence. An express contractual provision addressing the aforesaid issue will be enforceable since the clause would clearly lay down the impact such termination will have on the sub-licence.

Bankruptcy

- 39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?**

Many licence agreements also attempt to provide a party with the immediate right to terminate upon the bankruptcy or insolvency of the other party. However, the effects of a bankruptcy or insolvency on the termination of intellectual property rights (including licence rights) is a conflicting legal area. The termination may not be enforceable in any event; a stay of termination may be applied for by a licensee or its trustee in order to be able to maintain its business. Any such provisions should be viewed with a degree of suspicion, and drafted carefully if enforceability is critical.

Governing law and dispute resolution

- 40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?**

There are no restrictions on an international licensing arrangement being governed by the laws of other jurisdictions chosen by the parties except for issues of taxation. Thus, the parties may choose to be governed by the laws of another jurisdiction instead of India. However, they may still have to pay the taxes as applicable under the Indian laws.

- 41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.**

In such a case, an express condition stating the requirement for arbitration of the dispute is to be incorporated in the contractual agreement that is agreed to by both the parties. Arbitration proceedings can be conducted in any jurisdiction as agreed by the parties. The parties can agree to exclude arbitration in toto, if they intend to directly resort to the courts having jurisdiction.

- 42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?**

Yes, as India is a member of the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, a court judgment or arbitral award from another jurisdiction can be enforced in India unless it is invalidated on some grounds by the court in India under section 13 of the Code of Civil Procedure 1908 or under any other law.



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43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available and can be waived contractually. Claims and damages can also be waived in an arbitration agreement by agreeing to the jurisdiction of the arbitrator. The injunctive relief may be waived, provided the arbitral proceedings have not been decided and an arbitral award has not been obtained.

The parties may also waive their entitlement to claim specific categories of damages in an arbitration clause.

Japan

Kozo Yabe and Takeshi Kanda

Yuasa and Hara

Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

To establish a business entity or joint venture in Japan, every foreign company has to follow the general requirements, including the filing or regulatory review process under the Companies Act and other related corporation laws.

On the other hand, to enter into a licence agreement, there are no special restrictions in general against a foreign licensor without a subsidiary or branch office.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

The patent, utility model, design and trademark laws provide for two types of statutory licences: non-exclusive and exclusive. The Trademark Law also covers service mark protection. The statutory exclusive licensee can exclusively use the intellectual property rights (IPRs) and enjoy, specifically, an injunction and other effects as provided, while the licensor should relinquish use of the subject IPR for the licensor's business. In addition to this statutory exclusive licence, a contract-based exclusive licence is also frequently used. Although this type of contract-based exclusive licence cannot be equivalent in strength to the statutory exclusive licence, the licensee can enjoy the exclusivity of territory, licensed intellectual property and licensed products and services under the contract. The statutory non-exclusive licensee cannot use the IPR exclusively and enjoy an injunction.

The Copyright Law also provides for licence of copyrights and covers software program protection as licensing. The type of licence, however, whether non-exclusive or exclusive, is left to the contract made between the parties. In addition to these types of licensing, court precedent and the majority of academic views have recognised the licensing of trade secrets and technical know-how, technology transfer, publicity of celebrities, merchandising of characters, etc, on a contractual basis.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

A statutory non-exclusive licence of a patent, utility model, design or trademark right can be created without any registration requirement. On the other hand, statutory exclusive licences of the same industrial property rights must be registered at the Japanese Patent Office (JPO) in addition to the contract between the parties, and registration guarantees their exclusive licensee position, for example, the right to obtain an injunctive order and the right to exclude even the licensor's use of the licensed intellectual property in the territory. The Copyright Law does not require any registration for creation of a licence.

The legislation does not directly regulate royalty rates or other fees that may be charged by a licensor, the duration of the contractual term or the purchasing of certain products, but the Antimonopoly Law possibly regulates the terms of such matters. For example, if the licensor maintains an international licensing relationship with the licensee by abusing its dominant bargaining position, which causes the licensee to provide the licensor with money, services or other economic benefits, it may be against the Antimonopoly Law.

- What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

No pre-contractual disclosure requirement is imposed on a licensor in favour of its licensees.

On the other hand, as mentioned above, a statutory exclusive licence of the industrial property rights must be registered, but such registrations can only be made after the contract and not before. In such cases, registration is necessary only with the JPO, not with any other local authorities.

- Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?**

Licence agreements (whether international or domestic) are subject to the general principles provided under the Civil Code: ensuring that obligations are made in good faith and that abuses of rights are prohibited. On these points, licence agreements are treated the same as any other agreements.

In general, agreements can be terminated when there is a breach of obligation provided thereunder. However, since they govern the continuous relationship between the parties, it is more difficult for licence agreements to be terminated than other agreements. According to a precedent of the IP High Court, whether licence agreements can be terminated depends on some factors such as the degree of a breach of obligation and the reason causing the breach. On the other hand, there is no special requirement for licence agreements to be non-renewable. It is possible for both parties not to renew the agreement when it is terminated.

- Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?**

Yes. Licences are considered grants to use certain exclusive rights, for example a patent, utility model, design, trademark, copyright, trade secret and technical know-how. On the other hand, franchises can cover not only licences but also fair competition issues in the business relationship between franchisors and franchisees. Therefore, if a franchise agreement deals with licences of trademarks, trade secrets, etc, franchise law and interpretation of the contract may apply in addition to the licence laws.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Japan is a signatory country of both international treaties and the agreement, and has ratified them.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

In general, the licensee can be contractually prohibited from contesting the validity of a foreign licensor's IPRs or registrations in Japan. Yet this contractual prohibition may constitute an unfair trade practice when it is found to tend to impede fair competition by continuing rights that should be invalidated and by restricting the use of the technology associated with said rights. On the other hand, when the licensee contests the validity of IPRs, the Antimonopoly Law in general allows the licensor to terminate the licence contract.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The invalidity of an IPR registration makes a licence agreement void, and the licensor may be required to pay back to the licensee the royalty that has already been paid. To practically avoid this, in some cases, both a licensor and a licensee will conclude the agreement with a provision regarding the right of the licensor to retain the royalty that has already been paid.

On the other hand, the expiry of an IPR registration terminates a licence agreement. The licensor can retain any royalty that has already been paid, but loses the right to receive any future royalty. The agreement with a provision regarding the right of the licensor to continue receiving the royalty even after expiry can be illegal under the Antimonopoly Law, depending on the situation.

If the licence does not remain in effect, the licensee can freely compete when registration of an intellectual property right is invalid or has expired.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

No. However, it should be noted that being the first to file, even via the Paris Convention, PCT or Madrid Protocol, is a common requirement, especially for patents, utility models, designs and trademarks in Japan.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Yes. However, non-registered trademarks can only be protected by contract as full protection under the Trademark Law is not provided before the registration is completed at the JPO. Only trademarks that are famous or well known among consumers and traders may enjoy certain protection under the Unfair Competition Prevention Law.

A patent right that is not registered at the JPO is treated as 'the right to obtain a patent' under the Patent Act and as such can be licensed. The patent law provides for a provisional statutory exclusive licence and a provisional statutory non-exclusive licence. On the other hand, the Utility Model Law and Design Law only provide for a provisional statutory non-exclusive licence.

A copyright can be created without any registration, thus unregistered copyrights can be licensed as registered copyrights can.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

As mentioned in question 11, statutory exclusive licences must be registered at the JPO to be effective, and they are opposable to third parties.

On the other hand, statutory non-exclusive licences and contract-based exclusive licences require no registration to be effective and without registration, statutory non-exclusive licences and contract-based exclusive licences for patents, utility models and designs are opposable to third parties. By contrast, statutory non-exclusive licences and contract-based exclusive licences for trademarks are opposable to third parties only when such licences are registered. Any type of licensed right can be subject to a pledge or contract-based mortgage as collateral. These must be registered at the JPO to be effective and opposable to third parties.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

Licensors and the licensee of a statutory exclusive licence can institute proceedings against a third party for infringement if their rights are still effective and existent in Japan. On the other hand, a contract-based exclusive licensee cannot institute proceedings against a third party except claiming damages against an infringing third party according to higher court precedents.

There is no direct rule, regulation or precedent regarding contractual prohibition from licensees instituting those proceedings, but it may be construed that a licensee's capacity to institute such proceedings is based on the contract, namely the intent of both parties hereof, and so licensees can be contractually prohibited from doing so.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

Yes. However, the licensee must be granted the right to do so by the consent of the licensor. No statutory grant of a sub-licence exists in Japan.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Japan is a 'first to file' jurisdiction. However, a patent application that is pending at the JPO can be licensable, because a right to obtain a patent for such a patent application is protected under the Patent Law. An invention contained in such a patent application that is pending can also be considered technical know-how and the subject of a licence.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

If they satisfy the general requirements for patentability (novelty, inventive step and capability of industrial application), all of these are patentable. However, software programs and business processes or methods need to show in their patent claims and specifications how they can be applied to a hardware resource. Living organisms such as micro-organisms, animal organisms, etc, are patentable, but human organisms are not.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

The Unfair Competition Prevention Law prohibits some types of conduct related to unfair transactions, including obtaining, disclosing or using certain trade secrets in bad faith or with gross negligence. The definition of 'trade secrets' to be protected covers any confidential methods of manufacturing and sales and other technical or trade information useful for business activities.

Any person may make a request to a court clerk for the inspection of a case record, but in order to ensure that any trade secrets or know-how stated or recorded in the case record are not disclosed to any person

except for the parties to the case, the persons allowed to inspect the case records may be limited by the courts.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

A licensor can restrict disclosure or use of trade secrets and know-how even after the term of the licence agreement with a survival clause hereof. However, if a confidentiality agreement with a long term appears excessive when applied against the 'former' licensee, it can be illegal under the Antimonopoly Law.

With respect to improvements, the same applies, and in addition to that, if there is no reasonable reason for the licensor to restrict disclosure or use of the improvements by the licensee, it can also be illegal under the Antimonopoly Law.

19 What constitutes copyright in your jurisdiction and how can it be protected?

A copyrightable work is any thought or sentiment that is expressed in a creative way and falls within the literary, scientific, artistic or musical domain. The Copyright Law provides a detailed definition of copyrightable 'works', including software programs.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

Generally no, because the copyright author, as the original copyright owner and a licensor, is exclusively entitled to all copyrights even on derivative works under the Copyright Law. Such a provision would be advisable if the licensor expects improvements and for artwork that may not fall into the category of derivative works.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Japanese law does not have a special rule for restricting perpetual software licences. However, if a licensee forces a licensor to make a licence term perpetual despite an effective term limitation on IPRs, it can be illegal and invalid under the Antimonopoly Law.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

The Foreign Currency Exchange and Foreign Trade Law stipulates that export or international transactions involving certain kinds of goods to specified regions designated by Cabinet Order as being considered to obstruct the maintenance of international peace and security require the permission of the Minister of Economy, Trade and Industry. In addition, customs law prohibits export and import of goods that infringe patent rights or copyrights.

The above provisions are general restrictions that could also apply to computer software.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensee bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

If a licensee is granted a licence to improve or modify the software, the licensee owns the improvements or modifications. In this case, the licensor also has rights to the improvements or modifications developed by the licensee, because they are derivative works of the originally licensed copyright work. On the other hand, if the licensee is not granted a licence to improve or modify the software, the improvements or modifications could constitute infringement of the licensor's copyright. If there are no contractual provisions that the licensor will provide

the licensee with bug fixes, upgrades and new releases, the licensee cannot obtain them from the licensor.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

Generally speaking, such behaviour could possibly constitute negligence of the obligation to allow the licensee use of the software under the licence agreement, unless measures are installed to avoid illegal duplication of the copyrighted work as provided under the Copyright Law.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

There appears to be no court judgment regarding this topic yet. However, it is understood that a contractual provision disclaiming the licensor's liability in the case of defects in licensed software is valid in some cases, because defects, like ordinary bugs, are unavoidable in software.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

There are no specific legal restrictions with respect to such software. However, general legal principles such as breach of contract or tort may be applied depending on the facts of a particular case.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

There are no court precedents or legal developments yet that refer to public licences for open source software in Japan.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

In general, no. However, some regulations under the Foreign Currency Exchange and Foreign Trade Law may apply regarding a large cash transfer in view of currency and money laundering control. For example, a cash transfer of over ¥30 million must be reported to the Minister of Economy, Trade and Industry.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

As far as payments in a licence agreement are concerned, as stated under question 28, cash transfers (from Japan to a foreign country and from a foreign country to Japan) of over ¥30 million must be reported to the Minister of Economy, Trade and Industry.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

The Income Tax Law and the Corporate Tax Law can impose a withholding tax on royalty payments of 20 per cent. Basically, the Law applies to any income generated in the territory of Japan. However, if the unitary tax regulation applies, the income from Japan can be counted with other income from outside Japan.

Some tax treaties can give a licensor a chance to avoid double taxation and reduce the withholding tax if they make advance notice of the payment with withholding tax in Japan to their local tax authorities. However, if there are no tax treaties between Japan and the country of the licensor, double taxation cannot be avoided.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

A judgment that orders a defendant to make payment in a foreign currency is possible.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

The Antimonopoly Law generally prohibits unfair competitive trade for any contract, including a licence contract. Practices that potentially restrict trade are prohibited or regulated by this Law. To follow up this general prohibition, the General Specification of Unfair Trade and the Guidelines for the Use of Intellectual Property under the Antimonopoly Law should apply.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

Duration

There are no legal restrictions on duration provisions.

Exclusivity

As mentioned above, a statutory exclusive licence and a contract-based exclusive licence are legal, that is to say, an exclusive licence itself is legal.

On the other hand, if a licensor limits the type of customers to whom licensees may sell products (including copies of software programs) using the licensed technology, this may constitute formal restrictions on the licensee's business activities. Limitations on the counterparties to trade in the products that may use a licensed technology constitute unfair trade practices prohibited by the Antimonopoly Law if they tend to impede fair competition. Examples of such conduct include limiting counterparties (distributors) to those nominated by the licensor, limiting counterparties to those assigned to the licensees and prohibiting trade with specific parties.

Internet sales prohibitions

If the restriction on internet sales tends to impede fair competition, this may also constitute an unfair trade practice prohibited by the Antimonopoly Law, as it does in the above-mentioned restriction on customers.

Non-competition restrictions

When a licensor imposes on licensees an obligation to refrain from exercising, in whole or in part, the rights owned or to be acquired by them against the licensor or any firms designated by the licensor, this obligation may be an unfair trade practice if it tends to impede fair competition.

A licensor imposing an obligation on its licensees not to contest the validity of rights to licensed technology may fall under the category of an unfair trade practice when it is found to impede fair competition by continuing rights that should be invalidated and restricting the use of technology associated with said rights. However, in principle, terminating an agreement with any licensee that challenges the validity of rights may not constitute an unfair trade practice.

If any licensor imposes a restriction on licensees in relation to manufacturing or selling any product that competes with the licensor's products or to acquiring a licence for a competing technology from a competitor of the licensor, such a restriction constitutes an unfair trade practice prohibited by the Antimonopoly Law if it has the tendency to impede fair competition.

Grant-back provisions

If a licensor imposes on licensees an obligation to hand over to the licensor or any designated entity the rights to improved or newly developed technology made by the licensees, or to grant the licensor an exclusive licence for it, this conduct, in principle, constitutes an unfair trade practice prohibited by the Antimonopoly Law.

However, if the improved technology created by a licensee cannot be used without the licensed technology, the obligation imposed

on licensees to hand over to the licensor the rights or grant the licensor an exclusive licence for the improved technology in exchange for fair consideration could be recognised as essential to promote technology transactions. Moreover, it is not recognised as detrimental to the licensees' motivation for research and development. So, it is generally confirmed to have no tendency to impede fair competition.

When a licensor imposes on licensees an obligation to grant the licensor non-exclusive licences for improved or developed technology made by licensees, in principle it may not constitute an unfair trade practice as long as the licensees may still freely use their own improved technology.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

No.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are generally enforceable and commonly used, but in cases where the parties to a licence agreement are both Japanese companies, it can be said that they are less commonly used than in those cases where at least one of the companies is a foreign company. Insurance would be available to support a foreign licensor.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Parties can contractually agree to waive or limit certain types of damages under freedom of contract unless it is considered unreasonable and unfair under the Civil Code, Antimonopoly Law or other laws.

Disclaimers or limitations of liability are generally enforceable. However, if such a disclaimer seems unreasonable in view of fairness, consumer protection or other superseding legal interest, the disclaimer can be vacated and considered unenforceable under the Civil Code, Antimonopoly Law and other laws.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

The Antimonopoly regulation demands fair trade practices if the licensor wishes to terminate the licensing contract. In addition, court precedents tend to sympathise with licensees by giving them compensatory damages under the Civil Code if they face a sudden termination without reasonable cause and without good faith. On the other hand, there is no special requirement for licence agreements to be non-renewable. Commercial agency laws and other relative laws can also be applied to licensing relationships.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

According to court precedents, any sub-licence granted by the licensee shall terminate automatically on the termination or expiration of a licence agreement. If a licensee and a sub-licensee contractually agree on a clause that, for example, licensee shall keep the original licence during the sub-licence period, such clause is enforceable in the sense that the sub-licensee may request compensation for damages against

the licensee based on a breach of contract when the original licence is terminated during the sub-licence period.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

The bankruptcy of the licensee often leads to the termination of the licence agreement. In the case of the licensee's bankruptcy, there are two possible methods of termination.

One way is by terminating the licence agreement using a provision within the licence agreement itself. In most cases, a licence or sub-licence agreement includes a provision to allow a party to terminate it if the other party goes bankrupt. It is also common for the licensor to reserve a right of termination in the licence agreement if there is a high possibility of insolvency or a filing of bankruptcy for the licensee, even before the bankruptcy actually occurs and is approved by the court. On the other hand, it is not so common for the licensee (sub-licensee) to reserve the same right.

Another way is by terminating the licence or sub-licence agreement based on the provision of the Bankruptcy Law. This method is only available for trademark licences that are not registered. This right of termination is only given to the bankruptcy trustee of the licensor or licensee. It is impossible to terminate the licence or sub-licence agreement in this way prior to the court's approval of the bankruptcy.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

No.

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

The parties can agree to use arbitration rather than a court proceeding. The arbitration venue can be Japan or another country as specified in the contract.

With regard to the collective (or class action) arbitration, first of all, there is no such collective (or class action) arbitration system in Japan. A clause to preclude collective (or class action) arbitration in a contract governed by laws of Japan is considered to be valid. However, whether or not such clause is enforceable should depend on applicable laws of place of arbitration.

Update and trends

The Japan Fair Trade Commission amended its guideline of the Antimonopoly Act regarding the use of intellectual property in January 2016. The amendment focuses on FRAND and the Antimonopoly Act. In response to the result of public comments, the finalised amendment was somewhat changed from the draft. The following is a summary of the amendment:

In terms of the private monopolisation, rejection of a licence or filing of a suit for injunction by an owner of a standard essential patent who has made a FRAND declaration, with or without the withdrawal of the FRAND declaration, against a person who is willing to receive a licence under the FRAND condition may fall under an act to exclude the business activities of other entities by making the development, manufacturing and sale of a product, which adopts a standard, difficult.

Even if such an act does not cause a substantial restraint of competition in the market of the product and thus is not categorised as private monopolisation, such an act may eliminate transaction opportunities of entities that develop, manufacture or sell the product, which adopts the standard, or diminish its competitive function by making the development, manufacturing and sale of a product, which adopts a standard, difficult. Such an act falls under the unfair trade practice and is prohibited.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

Yes. However, according to the Arbitration Law, a court order in Japan is required to enforce a foreign judgment or arbitration award. Japan is a member of the New York Convention.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief against IP infringement is available under the IP laws. Such injunctive relief for infringement can be waived contractually in theory, but its actual effect is still dubious because it is rarely happened between the infringer and the intellectual property owner unless they have previous contractual relationship of licence or other special contract to waive a right to file an injunction. So then, such contractual waiver may not be a good defence against an actual injunction by lawsuit, but may cause compensation for damages under the breach of such contract on waiver of injunction.

On the other hand, an injunctive relief provided in a contract by the parties is also available and it can be waived by contract because it was originally given by the contract.

The parties can waive their entitlement to claim specific categories of damages in an arbitration clause.

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Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

In general, there are no restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor. Also, there is no filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in Korea, except in certain industries (eg, the defence industry) where participation of foreign entities is limited or prohibited.

Also, a foreign licensor is not required to establish a subsidiary or branch office in Korea in order to enter into a licence agreement in Korea. Accordingly, a foreign licensor may enter into a licence agreement without establishing a business entity or a joint venture in Korea.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

Korean law provides for licensing rights with respect to patents, utility models, trademarks and designs. Other forms of licensing, such as unpatented know-how, software, celebrity or character licensing are possible but are not governed by specific statutes. The forms of licensing arrangements are classified based on the terms and grounds that give rise to the licence.

In general, a licence is classified as either an exclusive licence or a non-exclusive licence. In an exclusive licence, the licensee may exercise the relevant rights exclusively and in a non-exclusive licence, the licensee may exercise a certain range of rights non-exclusively.

Depending on the grounds that give rise to a licence, there are: a contractual licence where a licence arises through an agreement between the parties; a statutory licence where a licence arises if and when certain requirements prescribed by law are satisfied; and a compulsory licence where a licensor's grant of licence is compelled by law. Relevant legal provisions governing a statutory licence and a compulsory licence vary according to the different types of intellectual rights concerned. Set forth below are different forms of licence arrangements available for patents, utility rights, trademark rights and design rights.

The Patent Act and the Utility Model Right Act grant a statutory non-exclusive licence in the following cases:

- where a person makes an invention independently prior to the filing of an application for a patent for the same invention (or acquires details of the invention from such a person) and has been engaged in commercial or industrial activities or preparation thereof involving such invention in Korea;
- where a lawful rightholder files a patent transfer claim against another person who had no right to file the patent application or who is one of the joint applicants of the patented invention; and
- where an original patent holder of a patent that will be invalidated on the grounds of an existing (often, unregistered) invention which is identical to the registered patent, has deployed the invention or

was prepared to do so without knowing that his or her patent would be subject to invalidation.

The Patent Act grants a compulsory licence in the following cases:

- where a person who has been negotiating for a non-exclusive licence involving a patented invention fails, or is unable, to reach an agreement with the holder of the patent, and
- the patented invention has not been deployed for three or more consecutive years without justifiable grounds;
- deploying a patented invention is particularly necessary for public interest; (deploying a patented invention is necessary to rectify a trade practice found to be unfair through judicial or administrative proceedings (where an additional agreement is not necessary); or
- deploying a patented invention is necessary to export medicines to countries intending to import the medicines to treat diseases that threaten public health in those countries. In these cases, Korea Intellectual Property Office (KIPO) sets the appropriate level of royalties.

The Trademark Act recognises a non-exclusive licence based on a prior use in the following cases:

- where a person has been using a trademark identical or similar to the registered trademark of another person on goods identical or similar to the designated goods;
- the person has continuously used such trademark in Korea before another person files an application for trademark registration without intending to engage in unfair competition; and
- as a result of continuous use of the trademark, the trademark is recognised among consumers in Korea as a trademark of the goods of a specific person at the time another person files an application for trademark registration for such mark.

The Design Protection Act recognises a non-exclusive licence based on a prior use and a non-exclusive licence based on a use prior to the filing of invalidation claims.

In addition to the foregoing cases where specific laws govern licensing, parties may freely enter into a licence agreement for copyrights, trade secrets, know-how, or other rights that are not prescribed by law and may determine the terms and scope of licence as they wish. With respect to copyrights, even in the absence of any agreement between the parties, parties may use any copyrighted work for a limited scope if it is used in court proceedings, political speeches, school educations, reporting of current events, among others. Also, barring any unusual circumstance, any copyrighted work that a national or local government agency has drafted and publicly released as part of their functions or retained ownership of intellectual property rights thereto, can be freely used.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

The compulsory patent licence noted in question 2 applies to a foreign holder of a patent right. Accordingly, if a person who wishes to obtain a licence for a patented invention in Korea has negotiated with a foreign

patent holder regarding a non-exclusive licence and failed to reach an agreement and if such person satisfies certain requirements as noted above, a non-exclusive licence may be recognised.

Also, the Korean Monopoly Regulation and Fair Trade Act (MRFTA) and the Review Guidelines for Unfair Exercise of Intellectual Property Rights (IPR Guidelines) regulate undue anticompetitive effects that may arise in the licensing of intellectual property rights. Especially, according to the IPR Guidelines, if a licensor abuses its status and sets the terms of a licence agreement one-sided, such acts may be considered as unfair trade practices and the relevant contract clauses may be declared invalid. The licensor may also be subject to a fine.

4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

There is no law that requires a licensor to disclose certain terms or register a grant of licensing rights before the licensor enters into a licence agreement. That being said, if a licensor enters into a licence agreement where the licensor knew that the relevant patent rights are invalid as there are clear grounds for patent invalidation, the licence agreement may be held invalid pursuant to the Civil Act as such acts would be considered to constitute a fraud against the licensee.

5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

The IPR Guidelines prescribes the following act by a licensor as unfair trade practices: demanding an unreasonable level of compensation or terms in granting a licence, unreasonably refusing to renew a licence agreement; unreasonably limiting the scope of a licence; imposing unreasonable conditions for the granting of a licence; and abusing the patent rights related to standard essential patents. Also, the IPR Guidelines deny the effectiveness of any contract clause related to the foregoing and regulate such acts by imposing a fine.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Yes. A separate law entitled the Fair Transactions in Franchise Business Act governs franchise businesses. For a business arrangement to be subject to the Act, in addition to a licence to use trademarks, etc, there must be a continuous relationship between the parties in which the franchisor supports, educates and controls the management and sales activities of the franchisee.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Korea became a party to the Paris Convention in 1980. Korea joined PCT in 1984 and was designated as an International Searching Authority and International Preliminary Examining Authority in 1997. In 2007, the Korean language was selected as one of the languages that can be used in the publication of the international application. Also, Korea is a party to the TRIPs.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

The Supreme Court of Korea has ruled that a person who is granted a licence under an agreement with a patent rightholder has no risk of contestation of the right that it holds and has no threat of actual or potential damage to its business during the term of the agreement, and accordingly, has no interest in seeking invalidation of the patent during the term of the agreement. In view of this Supreme Court decision, a licensee may not bring an action to invalidate the registered patent,

even though there is no provision in the licence agreement prohibiting such action.

Lower courts, however, have rendered conflicting decisions since the Supreme Court ruling, and questions have been raised as to whether the Supreme Court's precedent should be sustained. Accordingly, it is difficult to predict how a court will decide in specific cases.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

Under Korean laws, once the registration of an intellectual property right becomes invalidated, the invalidation is retroactive. Yet, in a case involving a licence agreement signed before the invalidation of the licensed patent, the Supreme Court has ruled that the licensor does not have the obligation to return to the licensee the portion of the royalty already paid under the valid licence agreement, as the payment did not amount to an unfair profit. To put it differently, the Supreme Court found it fair for a licensor (under a licence agreement) to receive royalties before its patent registration is invalidated, but would not recognise the right to receive royalties once the patent is invalidated. There are no decisions covering other types of intellectual property rights, but the principle set forth in the above Supreme Court decision is likely to apply in those cases.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

Korea is a 'first-to file' jurisdiction. Therefore, there is no need to submit documents related to prior use. That being said, in a case where a person files an application in Korea with a right of priority based on foreign applications, the person would need to submit documents that prove that the application was filed in foreign countries.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Firstly, with respect to trademark rights, the Korean Trademark Act adopts the 'first-to-file' and 'registration' rule, and accordingly, a person who registers his or her trademark with the KIPO will have an exclusive right to such trademark. Accordingly, an unregistered trademark, in principle, does not have an exclusive right and therefore, may not be licensable to third parties. That being said, even if trademarks are unregistered in accordance with the Trademark Act, if they are widely known in Korea, third parties may be prevented from registering or using identical or similar trademarks under the Unfair Competition Prevention and Trade Secret Protection Act. Thus, in such case, we believe that licensing such unregistered but widely known trademark may be possible.

For patents, licensing would require completion of patent application and registration in Korea. Therefore, unregistered patents may not be licensed to third parties.

Copyrights are recognised although not registered. Trade secrets also do not require registration. Accordingly, even if copyrights and trade secrets are not registered, licensing these intellectual properties is possible.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

There are no laws regulating non-exclusive licences, as the licensing is based on private agreement between the parties.

As for exclusive licences, a separate registration is necessary to render the exclusivity opposable to a third party. The grant of an exclusive licence for patents, utility models and designs must be registered with the KIPO or other authorities to be effective and enforceable against third parties. In trademarks, the granting of an exclusive licence is valid even if the grant is not registered; however, in order for it to be enforceable against a third party, the licence must be registered with the KIPO.

- 13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?**

A licensor may file an injunctive action against a third-party infringer without the consent of the licensee.

Whether a licensee may bring such actions depends on whether the licensee is an exclusive licensee or a non-exclusive licensee. An exclusive licensee in principle, may decide on his or her own to file an injunctive action against an infringer. That being said, the rights of an exclusive licensee may be restricted by the licence agreement. In order to restrict the rights of the exclusive licensee, the restrictions must be registered with the KIPO.

Unlike an exclusive licensee, a non-exclusive licensee only has a right to deploy an invention; a non-exclusive licensee does not have the right to seek injunction against a third party in his or her name. Only the licensor will be allowed to file an infringement action.

- 14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?**

Given that the rights of a licensee are exclusive, we are of the view that the licensee may sub-license to a third party a non-exclusive license, without being given a right to sub-license by the licensor. That being said, it is the general consensus that a non-exclusive licensee may not grant a non-exclusive sub-license to a third party, unless specifically permitted by the licensor in an agreement.

- 15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?**

Korea is a 'first to file' jurisdiction.

It is possible to enter into a licence agreement for the use of an invention subject to a patent application for which a patent has not yet been issued in Korea.

- 16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?**

Before 1 July 2014, software inventions could be protected by claims for method, apparatus or recording medium. On and after 1 July 2014, the scope of protection has become wider as software inventions can also be protected by claims for a computer program (or application) stored in a medium.

With respect to business methods, they are in and of themselves not recognised as inventions as they do not use the principle of nature; however, if their connection to particular goods is recognised, they may qualify as an invention. In this regard, for an invention of business processes or methods to be patented, in addition to the general requirements for patent registration (eg, novelty, non-obviousness and industrial applicability (similar to utility)), their connection through bonding or coupling with hardware, including computers, must be recognised.

Invention involving living organisms is patentable if it involves micro-organisms or animal organisms; however, any invention relating to human beings may be partly restricted. An invention in medical treatments (treatment on or medical diagnosis of human beings) is deemed to lack industrial applicability, and thus, is not eligible for patent. Methods of processing any substance generated by humans or collected from humans that has industrial use may be patented if they can be distinguished from medical treatment.

- 17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?**

In Korea, trade secrets and know-how are protected under a separate body of law known as Unfair Competition Prevention and Trade Secret Protection Act. According to this act, the term 'trade secrets' means 'information, including a production method, sale method, useful technical or business information for business activity, that is not known publicly, requires considerable efforts to maintain its secrecy, and has independent economic value'.

The Korean Civil Procedure Act provides that the court may limit the disclosure of information upon request of a party if the records of the trial include a trade secret. Also, the court may choose to review certain information that a party claims as trade secrets without disclosing to the other party by proactively exercising its discretionary power over the proceeding.

- 18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?**

The licensor may prohibit the disclosure of trade secrets and know-how not only during the licence term but also after the expiry or termination of the term by agreement. However, with respect to the confidentiality obligations after the expiry or termination of the term of the agreement, the courts may require reasonableness in the restriction. Accordingly, the disclosure may be prohibited for a shorter period than provided in the agreement.

With respect to certain trade secrets, if a licensee makes improvements, and the improvements are recognised as falling within the purview of the trade secrets of the licensor, the licensee's use of the improvements may also constitute a use of the original trade secrets. Similar to trade secrets and know-how discussed above, the licensor may also prohibit the disclosure of the improvements made by the licensee during the term or after the termination of the agreement.

- 19 What constitutes copyright in your jurisdiction and how can it be protected?**

Copyright may be classified as follows: author's moral rights, including right of publication, right of attribution and right to the integrity which cannot be transferred to a third party or waived; or author's proprietary rights, including right of reproduction, public performance, public aerial transmission, exhibition, leasing and production of derivative works. In addition, the Copyright Act prescribes neighbouring rights, including the right of a stage performer, record producer and broadcaster, and as technology develops, the number of newly recognised authors' proprietary rights also increases, and therefore, the Copyright Act is continuously adopting new provisions to protect these 'developing' rights.

- 20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?**

If a licensee makes improvements on the licensor's copyrighted work to the level where creativity can be recognised, the new creative works would constitute derivative works and, thus, the licensee will own the copyright to the improvements. As the Copyright Act in Korea has no specific prohibition, we are of the view that it is possible to enter into an agreement under which the licensor may obtain a prior permission to transfer or use the derivative works or the licensor requires the licensee to obtain a prior permission to use his or her derivative works.

Software licensing

- 21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?**

Korean law does not specifically limit the software licence period. We note, however, that if a long-term licence agreement is entered into by the licensor abusing its superior bargaining power, such act would be considered as an unfair trade practice and may be limited or restricted in accordance with the MRF TA.

- 22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?**

There is no separate statutory restriction related to software licences. Also, import and export restrictions by Korean law are generally restrictions on goods, and therefore, generally do not apply to software licences. It should be noted, however, the export of certain software that is classified as strategic material for military or intelligence security use, requires prior permission.

- 23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensee bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?**

Where a licensee modifies or improves software that is subject to the licence agreement, origination or vesting of any rights from the improvements may vary depending on the degree of modification and improvement. If the modifications and improvements are simple (without any additional creativity involved), use of the modifications and improvements would be considered a use of the original software. On the other hand, if creativity in the modifications and improvements is recognised, the amended and improved program becomes a new copyright work and the copyright will vest in the licensee, the author of the work.

In a typical licence agreement, a licensor has the obligation to provide software that is specified in the licence agreement to the licensee. A licensor does not have an obligation to continuously update or fix bugs. Accordingly, if there is no separate provision in the agreement, we are of the view that a licensee has no right to require the licensor to provide bug fixes, upgrades and new releases. We note, however, that if bugs or defects in software are so serious that a licensee cannot properly use the software, the software licensor would likely be required to provide its licensee bug fixes or upgrades even in the absence of a contractual provision to that effect, as bug fixes or updates would likely be an implied obligation of the licensor under the licence agreement.

- 24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?**

A licensee has the right to use software to the extent permitted by the licence agreement. Accordingly, we do not believe that it would be in violation of the licence agreement for a licensor to install a separate device for the purpose of preventing any use that is beyond the scope of the agreement. However, in order to prevent the device from conflicting with the rightful use of the software by the licensee, we believe it may be necessary to include information on such device in the agreement or inform the licensee in advance.

- 25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?**

We do not believe there are any court precedents addressing the issue in Korea.

- 26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?**

We believe that there are no such legal restrictions in Korea.

- 27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?**

Currently, in Korea, there is no law or regulation enacted that governs licensing of open source software. We have not been able to identify any court precedents directly relating to the issue. However, given the rapid growth of interest in and use of open source software in Korea, we believe that the discussion in this area will likely be heightened.

Royalties and other payments, currency conversion and taxes

- 28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?**

There is no legislation that specifically governs the calculation of royalties or other fees or costs. Generally, the parties determine the amount and payment schedule of royalties through separate agreements. However, if a licensee is late in the payment of royalties, unless the licence agreement prescribes a separate interest on late payment, an annual 6 per cent interest prescribed by the Korean Commercial Code may be applied. Also, the Review Policy on Unfair Exercise of Intellectual Property Rights, places rather abstract limitations preventing a licensor from collecting royalties that are 'unfair'.

- 29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?**

The law that applies to foreign exchange transactions and other foreign transactions is the Foreign Exchange Transactions Act (FETA). According to the FETA, any transaction relating to origination of claims constitutes a capital transaction, and any person who desires to engage in a capital transaction must report the transaction to the Minister of Strategy and Finance before payment or receipt on claims or debts.

- 30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?**

According to Korea's Corporate Tax Law, if a person uses IP rights in Korea and makes payment in Korea, Korea will impose taxes, as the royalties received in connection with the foregoing by a foreign entity would be considered a Korean source income. The applicable tax rate is 10 per cent if the tax base is 200 million won or less, and 20 per cent of the amount in excess of the 200 million won tax base plus 20 million won.

That being said, if a licensor is situated in a country with which Korea has entered into a tax treaty, the foreign licensor may not be taxed in its country for the amount that has already been taxed in Korea. The tax rate may also be limited in accordance with the relevant tax treaty.

In connection with the interpretation of the US-Korea tax treaty, a Korean district court has recently ruled that Korea may not impose taxes on royalties if a foreign licensor of patents registered only in the US receives such royalties from a Korean entity on the basis that if there is no patent registered in Korea, patent infringement cannot occur and therefore, the need for payment of royalties for the use of such patents cannot be recognised. Accordingly, for Korea to impose taxes on royalties that a foreign entity receives from a Korean entity, the relevant licence must cover a patent registered in Korea.

- 31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor owing to currency exchange fluctuations be enforceable?**

There are many cases where courts have rendered a judgment in a foreign currencies. If it is necessary for a payments to be in a foreign currency in accordance with the agreement, a court will render a judgment in the foreign currency.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

In Korea, the MRFTA has been enacted and enforced to prevent the abuse of market dominance and excessive concentration of economic power in enterprises and regulate illegal acts of collusion and unfair trade practices. Also, the Korea Fair Trade Commission, Korea's competition agency, prosecutes the abuse of market dominance, illegal acts of collusion, unfair trade practices and may order corrective measures or impose penalties.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

In Korea, there is no law that directly restricts or limits the terms of a licence agreement. That being said, if any act constitutes an abuse of market dominance, illegal acts of collusion, unfair trade practices in light of the terms of the licence agreement in its entirety, the acts may be prohibited in accordance with the MRFTA.

Whether an act violates the MRFTA may be determined by examining whether the exercise of intellectual property rights, including granting of a licence, hinders competition of the related goods, technology or R&D among current or potential market participants.

In particular, in connection with payment of licence fees, each of the following acts would constitute a violation of the MRFTA:

- unfairly collaborating with other enterprises to decide, maintain or change the licence fees;
- unfairly imposing discriminatory licence fees depending on the counterparty;
- unfairly demanding licence fees which include fees for the portion of the licensed technology which are not used;
- unfairly imposing licence fees for the period beyond the duration of the patent right; and
- unilaterally deciding or altering the method of calculating licence fees without prescribing the calculation method in the contract.

Also, a licensor's unreasonably refusing to enter into a licence agreement with a particular enterprise, unfairly limiting the scope of licensing and imposing unreasonable and irrelevant conditions when granting a licence, can be deemed a violation of the MRFTA.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

Yes. Korean courts view that if an exercise of intellectual property rights is beyond the scope of justifiable exercise and constitutes an abuse of market dominance and unfair trade practices, such exercise would constitute a violation of the MRFTA.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Contracts that are executed in Korea generally include a damages clause. Also, there are a number of disputes wherein compensation is claimed based on a damages clause in a contract. That being said, if the court believes that the amount of damages is unduly exorbitant, the court uses its discretion to reduce the amount.

Regarding the scope and terms of an insurance coverage, each insurance company makes its own decision and there is no law that prevents the same; therefore, the above insurance is theoretically possible.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

In accordance with the principle of freedom of contract, it is possible that the parties contractually agree to waive or limit certain types of damages that may occur in connection with the contract. The Korean courts respect the terms agreed to by the parties, barring unusual situation.

That being said, if the waiver of damages or limitation of damages is considered excessive or abusive, the execution of the contract itself may constitute unfair trade practices and a violation of the MRFTA.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

The IPR Guidelines provide rather abstract criteria that an act of a licensor unreasonably refusing to grant a licence to a particular enterprise and thereby causing anticompetitive effects in the relevant market may constitute an unfair trade practice. That being said, there is no specific law restricting or limiting the licensor's authority to terminate a licence agreement or prescribing indemnity or other compensation at the expiry or termination of the licence agreement.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

If a licence agreement expires or terminates, in principle, a sub-licence agreement will be terminated unless there are unusual circumstances, such as the licensor giving consent to the sub-licence after having learned that the sub-licence agreement has been executed. It is possible to include a contractual provision addressing the issue and such provision would be enforceable.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

If a licensee files for bankruptcy, generally, the licensee would not have sufficient funds to pay licence fees, and in such case a licensor may terminate the licence agreement based on default. As noted in our response to question 38, following the termination of a licence agreement, in principle, the sub-licence would not be valid any more. However, in a rehabilitation proceeding, if the court deems the continuation of the licence essential in the preservation and continuation of the debtor's business, the court may impose a restriction on terminating the licence agreement.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

The Act on Private International Law provides that the parties may agree to a certain governing law, and any dispute arising out of or in connection with the contract may be governed by the governing law agreed between the parties. Accordingly, it is possible to decide the governing law chosen by the parties when executing an international licensing agreement. However, if there is no 'reasonable relevance' between the case and the jurisdiction chosen by the parties, the court has ruled that such jurisdiction cannot be recognised.

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

In order to initiate an arbitration proceeding in Korea, in principle, there must be an agreement between the parties to arbitrate, and such agreement must be made in writing. In practice, it is possible to initiate an arbitration proceeding even if there is no agreement by the parties to arbitrate; however, in such case, the arbitration tribunal may only make a temporary disposition.

As Korea is a contracting state to the Convention on the Recognition and Enforcement of Foreign Arbitral Awards, pursuant to the Convention, any arbitration decision rendered in another contracting state is valid in Korea. Accordingly, it is possible for the parties to contractually agree to arbitration in states other than Korea and enforce the arbitration award in Korea.

The parties may contractually agree not to go through arbitration proceedings, and there are no specific conditions for a contractual waiver to be enforceable.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

A final and conclusive judgment rendered by a foreign court is valid in Korea if it satisfies the following requirements:

(i) that the international jurisdiction of such foreign court is recognised under the principle of international jurisdiction pursuant to the statutes or treaties of Korea; (ii) that a defeated defendant is served, by a lawful method, a written complaint or document corresponding thereto, and notification of date or written order allowing him or her sufficient time to defend, or that he or she response to the lawsuit even without having been served such documents; (iii) that the approval of such final judgment, etc, does not undermine sound morals or other social order of Korea in light of the contents of such final judgment, etc, and judicial procedures; and (iv) mutual guarantee exists, among others.

However, for the compulsory enforcement of a foreign judgment or award, a separate Korean court's decision to enforce the foreign judgment is required.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief based on a court judgment or decision is available in Korea.

The parties may add an arbitration clause waiving part or all of their entitlement to specific relief, including injunctive relief. If such waiver clause is not deemed to unfairly favour one party over another so as to constitute unfair trade practices, the waive clause may be included and upheld.



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Mexico

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Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

To determine whether there are restrictions on the establishment of a business entity by a foreign licensor, it must be considered that under Mexican law there are no general prohibitions for a licensor to establish a local entity, and that it must only comply with certain legal requirements, including:

- having a permanent address in Mexico;
- being legally incorporated in Mexico in compliance with all the formal requirements;
- complying with all tax obligations; and
- having two or more shareholders or partners.

While in general there is no restriction on establishing a legal company in Mexico owned by foreign entities, there are restrictions on certain activities considered by Mexico as reserved activities, such as oil, electricity, postal services and satellite communications.

There are no restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office. A foreign licensor may enter into a licence agreement without needing to establish a local entity, either a branch or subsidiary.

As to whether any filing or regulatory process is required before a foreign licensor can establish a business entity or joint venture, the answer can be broken into two parts. In connection with a joint venture via a contractual agreement, in general, there is no need for any compliance with regulatory requirements. If the joint venture is done via the incorporation of a Mexican company with a local partner or through the incorporation of a local entity by foreign investors, there will be several legal requirements that must be complied with, such as:

- obtaining an authorisation to use any given company name from the Ministry of Economy who will determine that the activities that the company will perform do not fall within any of the prohibitions or restrictions either by the activity per se or by the percentage of foreign capital that such company will have;
- incorporating the company before a notary public;
- registering the newly incorporated company before the Public Commercial Registry and the Foreign Investment Bureau;
- having a legal address in Mexico; and
- obtaining a federal tax number and thus registering before the Internal Revenue Service.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

The Mexican legal system recognises and thus permits all kinds of licence arrangements, such as within the industrial property area, which in Mexico consists of patents, trade secrets, trademarks, service marks, layouts of integrated circuits, franchises, plant varieties,

know-how and technology. In addition, within the copyright arena, all copyrightable subject matter is subject to licence, including literary works, musical works, dramatic works, dances, pictorial works or works of drawing, sculptures and works of a plastic nature, works of caricature and short stories, architectural works, cinematographic and other audiovisual works, radio and television programmes, computer software, photographic works and works of compilation.

Other rights recognised under the Mexican Federal Copyright Law can also be the subject matter of a licence, such as the 'related copyrights', which may include those rights that the artists and musicians have in connection with their performances. There are also special mechanisms to protect titles of serial publications and broadcasts, artistic names and characters, referred to as 'reservation of rights', that are also the subject matter of licences.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Article 78 of the Mexican Commercial Code establishes that in commercial agreements, each party will be bound by the terms and conditions of the agreement without the need for further formal requirements. The parties may establish the terms and conditions they consider suitable for their agreement, as long as such terms do not contravene legal provisions.

However, if we consider those licences that include duly registered IP rights (such as patents or trademarks) and that the agreement will be recorded pursuant to the Mexican Industrial Property Law, then some legal minimum clauses are to be included, such as:

- the name and address of licensor and licensee;
- the trademarks or patents included in the licence;
- the nature of exclusivity of the licence: exclusive or non-exclusive;
- the term of the licence with a wording indicating that it will not exceed the lifetime of the involved trademarks or patents;
- an indication as to whether the licensor will retain the right to enforce the trademarks or patents (if no such disposition is included in the agreement, it is construed by operation of law that the licensee will have the right to enforce trademark or patent rights);
- the territorial scope of applicability; and
- royalties (if any).

- What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

Generally speaking, there are no pre-contractual disclosure requirements imposed on licensors when licensing an intellectual property asset, whether registered or not. However, with specific reference to franchise agreements, the Mexican Industrial Property Law under article 142-bis and subsequent articles obliges the franchisor to provide to a potential franchisee the information about the franchise at least 30 calendar days prior to the signature of the franchise agreement. In this regard, this obligation should be construed in light of the contents of article 65 of the Regulations of the Industrial Property Law, which

establishes the minimum information about the franchise to be delivered to the franchisee, consisting of the following:

- the name, address and citizenship of the franchisor;
- a description of the franchise;
- the time during which the franchisor and the local master franchisor, if applicable, have been doing business with the franchise;
- the IP rights involved in the franchise;
- payments and royalties that the franchisee must comply with;
- the kind of technical assistance and services that the franchisor will be providing to the franchisee;
- the territory of the franchise;
- an indication as to whether the franchisee will have the right to grant sub-franchises and, if applicable, the requisites for granting the sub-franchises;
- the confidentiality obligations to be acquired by the franchisee; and
- in general, the rights and obligations that will be acquired by the franchisee at the time of execution of the franchise agreement.

5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

Not applicable.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

The Mexican Industrial Property Law does not provide a definition for a licence, thus licences will be governed, in general, by Mexican commercial and civil law. However, and in connection with franchises, the Mexican Industrial Property Law specifically provides a definition thus establishing what a franchise is in relation to a licence.

Article 142 of the Law establishes that:

[a] franchise shall exist when, together with the licensing of the use of a mark, know-how is transferred or technical assistance provided so that the person to whom the licence is granted can produce or sell goods or provide services consistently according to the operating, commercial and administrative methods established by the owner of the mark, in order that the quality, prestige and image of the products or services distinguished by the said mark may be maintained.

If a licence agreement bears all of the legal elements required for a franchise, then a court may indeed rule that it is not a licence per se but a franchise. However, if not all of the elements mentioned under law and regulations are comprised within the licence agreement then it would not be considered to be a franchise.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Yes, Mexico is a party to all three international treaties.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

Yes.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

Under the Mexican Industrial Property Law, the recordal of a licence agreement before the Mexican Industrial Property Institute shall be cancelled when the IP right is declared invalid or expires in the case of

patents and in the case of trademarks by nullity, expiration or cancellation of the registration of the mark, or when the marks were pending applications and their registration is not granted.

Apart from the recordal issue mentioned above, it has to be considered that if a licence subject matter expires or is invalidated then the purpose of the agreement ceases to exist. However, there is no legal provision that expressly states this situation. Considering royalties, the parties will be bound by the terms and conditions of the agreement that may foresee this issue. Aside from the cancellation of the recordal of the agreement, if the licence agreement establishes a longer term of validity, the contractual obligation will remain between the parties and thus the licensee will not be in a position to compete freely.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

No.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Yes, since there is no express prohibition by law, but such licence agreements will only have legal effects between the signatory parties.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

For a licence agreement, including a security interest agreement, to be opposable against a third party, such agreements must be recorded before the Mexican Institute of Industrial Property against the registered IP rights affected.

There are certain legal requirements that the agreements must comply with in order to be recorded, as follows:

- the name and address of licensor and licensee; the trademarks or patents included in the licence;
- the nature of exclusivity of the licence, whether exclusive or non-exclusive;
- the term of the licence with a wording indicating that it will not exceed the lifetime of the involved trademarks or patents; and
- an indication as to whether the licensor will retain the right to enforce the trademarks or patents. If no disposition in this regard is included in the agreement, it is construed by operation of law that the licensee will have the right to enforce trademark or patent rights, the territorial scope of applicability and royalties (if any).

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

Yes. If there is no indication to the contrary in the agreement, by law, the licensee will have the right to institute proceedings against an infringer. This can be contractually prohibited.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

Yes, but only if it is contractually allowed by the licensor.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Yes. It is possible to grant a licence agreement over an invention in respect to a patent that has not been issued in our jurisdiction.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

None of the above are patentable.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

Yes, trade secrets are governed under a specific chapter of the Industrial Property Law. Specifically, article 82 of such Law provides the following definition of a trade secret:

[A] trade secret shall be considered as any information susceptible of industrial or commercial application that a natural person or legal entity keeps, is of confidential character and is associated with securing or retaining a competitive or economic advantage over third parties in the conduct of economic activities, and regarding which the said person or entity has adopted sufficient means or systems for preserving confidentiality and restricting access.

The information constituting a trade secret shall necessarily relate to the nature, characteristics or purposes of products, to production methods or processes or to ways or means of distributing or marketing products or rendering services.

Information that is considered as public domain, that is evident to a person skilled in the art on the basis of previously available information or that must be disclosed by virtue of a legal provision or court order, shall not be considered a trade secret. Information that is supplied to any authority by a person possessing it as a trade secret shall not be considered public domain or be disclosed by virtue of a legal provision when it is supplied for the purpose of obtaining licences, permits, authorisation, registrations or any other official acts.

Courts have been somewhat reluctant to enforce trade secret violations, although any violation thereto is punishable by civil, administrative and criminal remedies.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

Any provisions for confidentiality will be determined in the licensing agreement when necessary. The law does not explicitly allow this restriction, but nor does it forbid it; thus it is allowed under general contractual law. Such restrictions may last longer than the term of the licensing agreement.

Concerning improvements for methods in know-how and trade secrets, there is no legal provision in Mexico to determine whether the licensor or the licensee will have proprietary rights in connection with them. In this regard, it is extremely important for the licence agreement to foresee:

- if the licensee will be authorised to make improvements;
- who should be the owner of the improvements; and
- the implications upon termination of the agreement.

19 What constitutes copyright in your jurisdiction and how can it be protected?

Copyright is the recognition given by the state to a creator of any of the literary and artistic works specified in article 13 of the Federal Copyright Law, by virtue of which it grants its protection to the author's enjoyment of exclusive prerogatives and privileges of a personal and economic character. The former constitute moral rights and the latter economic rights.

Copyrightable subject matter includes literary works, musical works, dramatic works, dances, pictorial works or works of drawing, sculptures and works of a plastic nature, works of caricature and short stories, architectural works, cinematographic and other audiovisual works, radio and television programmes, computer software, photographic works, works of applied art, including works of graphic or textile design, and works of compilation.

In addition, there are other rights recognised under the Copyright Law, such as the 'related copyrights', that may include those rights that the artists and musicians have in connection with their performances. There are also other special mechanisms to protect titles of serial publications and broadcasts, artistic names and characters, referred to as 'reservation of rights' that, although governed under the Copyright Law, are not copyrights per se.

Speaking strictly legally, protection is obtained once the work is fixed in any tangible medium of expression. For enforcement purposes, however, registration is recommended before the Mexican Copyright Institute and is requested by the authorities when trying to enforce a copyright.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

It is advisable, as otherwise the derivative works created by the licensee will be owned by the licensee.

Software licensing**21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?**

The Federal Copyright Law allows software licences for an indefinite time but always linked to the lifetime of the economic rights derived from the software subject matter of the licence.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

There are no legal requirements in this regard. However, it is highly advisable, as mentioned before, to register the software with the Mexican Copyright Office.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensee bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

In general, any author or creator of any derivative work will own the rights to such work. However, the owner of such derivative work will not be able to exploit it commercially unless there is written consent by the owner of the original work.

There is no obligation for the licensor to provide licences to such upgrades, bug fixes or new releases, unless there is a contractual obligation to do so.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

If it is considered under the terms and conditions of the licence agreement, there is, indeed, the possibility of including mechanisms to disable or erase the licence of the software.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

No court resolution has been issued on this subject.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

Software will still be considered copyrightable subject matter even if it falls within the category mentioned in this hypo or even if it is considered illegal on its performance.

- 27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?**

No court resolution has been issued on this subject, and there are no relevant legal developments concerning the use of open source software.

Royalties and other payments, currency conversion and taxes

- 28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?**

In general, there are no regulations on this matter. However, it is highly recommended to review the tax issues concerning price transfer when determining the percentage of the royalties to be paid.

- 29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?**

No.

- 30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?**

The local licensee is obliged to withhold the taxable amount derived from royalty payments and to pay it to the Mexican Internal Revenue Service. The receipt document of such amounts will be used by the licensor to credit payment of such taxable amount to its government authorities and, thus, avoid double taxation.

- 31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?**

A judgment can be rendered by a foreign court and it will be subject to a recognition procedure before the Mexican courts. If recognised, the licensee will be obliged to pay the amount corresponding to the exchange rate published on the day of payment in the Official Gazette.

Competition law issues

- 32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?**

The Federal Law of Economic Competition (LFCE) implements the constitutional prohibition on monopolies, not by making monopolies unlawful as such, but by prohibiting and punishing acts by which monopoly practices might occur.

According to articles 9 and 10 of the LFCE, practices are catalogued as absolute or relative. The first practices are prohibited and agreements to undertake them are legally invalid. On the other hand, the relative practices may not be unlawful unless the defendant is considered to have 'substantial power' in a defined relevant market and is not able to claim otherwise.

There are four categories included in the absolute monopolistic practices that refer to horizontal agreements between competitors: price fixing, output restriction, market division and bid rigging. The LFCE also considers certain particular actions to be of this category, namely, the price-fixing provision forbids information exchanges with the purpose or effect of setting up or manipulating price, the output restriction provision prohibits arrangements on the amount or regularity with which goods and services are produced, the market division provision regulates prospective and existing markets and the bid-rigging provision covers agreements regarding participation in auctions and establishment of the prices to be bid.

Other horizontal actions are considered relative practices, that is, practices that unduly damage or impair the process of competition and free access to production, processing, distribution and marketing of goods and services.

In connection with vertical agreements, all practices are considered relative practices. The LFCE regulates the following: vertical market division, resale price maintenance, tied sales, exclusive dealing and refusals to deal.

Other actions treated as relative practices are predatory pricing, exclusive arrangements in exchange for special discounts, cross-subsidisation, discrimination in price or conditions of sale and raising competitors' costs.

The above-mentioned relative monopolistic practices might be against the law if the following two conditions are met:

- if it is proved that they improperly displace other agents from the market, substantially limit their access or establish exclusive advantages in favour of certain persons; and
- if the responsible party has substantial market power in the relevant market.

- 33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?**

The Industrial Property Law includes provisions to regulate licence agreements in connection with the following issues:

- the licence shall not be registered when the IP right has expired or where its duration is longer than the term of the IP right;
- with the exception of the licences of public utility and compulsory licences, any licence may be exclusive;
- in connection with non-competition covenants, these are enforceable under Mexican law. However, under constitutional construction there has been some debate on the validity or not of such covenants but to date there has been no jurisprudence on the matter; and
- indemnification, disclaimers of liability, damages and limitation of damages.

As previously mentioned, the contracting parties will be bound by the terms and conditions they deem necessary. Although all of the above-mentioned clauses can be included, there may be some issues regarding enforceability in some of them, particularly the non-compete clause after the termination of the agreement.

- 34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?**

No.

Indemnification, disclaimers of liability, damages and limitation of damages

- 35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?**

Indemnification provisions are commonly used in licence agreements in Mexico. Insurance is not commonly used in Mexico to guarantee contractual obligations, rather, the obtention of a bond in favour of the licensor in the case of default by the licensee may be an alternative.

- 36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?**

In general, damages are understood as an economic loss caused by illicit conduct or a breach of a contractual obligation. It is possible to contractually limit or waive the indemnification for damages and this is recognised as enforceable by the courts.

Termination

- 37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?**

There is no actual limitation on terminating the agreement if the cause of termination is contractually agreed. However, the affected licensee may seek court remedies to try to uphold the agreement under different specific scenarios or seek payment of damages.

- 38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?**

The terms and conditions of a sub-licence agreement must concur with the terms of the main licence agreement and the terms and conditions of the main agreement will apply to the sub-licences. Hence, it will certainly be considered that, in the event of the termination of the licence agreement, the sub-licence will also be terminated and certainly the provision will be enforceable.

Bankruptcy

- 39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?**

It will depend on the terms and conditions agreed upon in the licence agreement. If these circumstances are foreseen, then there is the possibility of terminating the agreement instantly.

Governing law and dispute resolution

- 40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?**

There is no restriction on governing laws or jurisdiction as long as it is governed by the laws of the country of residence of one of the parties. This situation will apply when submitting to the venue of the judicial courts.

- 41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.**

Yes, the parties may choose to submit to arbitration in the case of a controversy and may also choose the place for the arbitration.

- 42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?**

Mexico is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

- 43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?**

Injunctive relief is not available in Mexico.

The parties may, indeed, choose to waive specific categories of damages and submit to only those contractually agreed. No special conditions are necessary.



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Overview

- 1 **Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

In principle, there are no such restrictions. However, business entities that are incorporated under foreign law, but are active on the Dutch market rather than within their own country, are subject to the Companies Formally Registered Abroad Act (the CFRA Act). The CFRA Act does not apply to members of the European Union and countries that are members of the European Economic Area Agreement. All other entities must comply with certain requirements applicable to Dutch entities (registration with the Commercial Register and filing of annual accounts with the Commercial Register where the business entity is registered).

Kinds of licences

- 2 **Identify the different forms of licence arrangements that exist in your jurisdiction.**

Dutch law does not define types of licences as such. Basically, any exclusive right or asset can be the subject of a licence, governed by the general provisions on Dutch contract law and – if applicable – the specific provisions in specialised acts, such as the Dutch Patent Act. Licences can include intellectual property rights (such as trademarks, patents, design rights, technology transfer, copyrights or software) and confidential know-how. The licence can be granted on a pending application or a registered right, and can be limited in time or perpetual, sole, exclusive or not exclusive, limited in scope (for certain use only), for free or for consideration, compulsory (for certain patent licences) or by law (copy for private use of copyrighted work).

Law affecting international licensing

- 3 **Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

There is no specific legislation that governs the creation or regulates the terms of an international licensing relationship or that governs royalty rates or fees that may be charged. The Dutch Civil Code (DCC) does not contain specific provisions on licensing, the general provisions on Dutch contract law apply as well as Dutch court decisions. Book 6 of the DCC sets out the requirements relating to the formation of contracts. These provisions must be read in conjunction with the more general rules regarding legal actions; that is, actions intended to invoke legal consequences as provided in Book 3 DCC. Further, commercial contracts (including licence agreements), are governed by the ‘principle of reasonableness and fairness’ (based on article 6:248(1) DCC). This principle may not only supplement the existing contract and relationship, but may also derogate from the contract the parties agreed upon at an earlier stage, in the event a provision is – under the circumstances at hand – unacceptable according to the principle of reasonableness

and fairness. The standard to derogate from an agreed provision is high. This said, especially (very) large companies should be aware that a provision in an existing contract could be set aside by the principle of reasonableness and fairness if it is very one-sided and thus unacceptable in the given circumstances (eg, a provision that the licence relationship may be terminated by one of the parties at any given moment upon only 30 days’ notice, especially when dealing with a (very) small or dependent counterparty). It is not possible to predict what kind of provisions may be set aside, if any, since the court will consider all relevant circumstances, including the economic power of each party, the interdependency of the parties, the duration of the contract, the investments made by either party, what each party could reasonably expect from the other party and all other relevant circumstances.

As a general rule, Dutch courts generally tend to protect economically weaker (smaller) parties at the expense of stronger (larger) parties. However, this certainly does not mean that simply by being a ‘weaker’ party, certain clauses will be set aside. In general, an agreed contract in writing will define a relationship primarily. Whether there are grounds to deviate from a written contract, depends on all circumstances of the matter including the expectations of the parties when executing the contract.

There may be a Dutch franchise law somewhere in the future years, at least the intention of a franchise law has been communicated by the current Dutch Minister of Economic Affairs; however, at the moment it is uncertain how and when the legislative process will take place and what the result of this process is going to be.

Besides the civil law aspects, in licensing (as well as distribution and all other vertical agreements) competition laws play an important role and should be kept in mind. The Commission Regulation (EU) No. 330/2010 of 20 April 2010 on the applicability of article 101(3) of the Treaty on the Functioning of the European Union (TFEU) to categories of vertical agreements and concerted practices (the Commission Regulation on vertical agreements) is important, as well as the EU Guidelines thereto. The competition law aspects in relation to licensing are further discussed under questions 32 and 33.

- 4 **What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

Pre-contractual disclosure requirements stem from unwritten law and case law, which impose upon contracting parties the duty to inform and investigate. Parties are entitled to rely on the accuracy of each other’s information and must always bear in mind each other’s reasonable expectations. The principle of reasonableness and fairness can also play a role (see question 3).

There are no requirements to register the grant of international licensing rights with authorities in the Netherlands. However, only after registration does a licence obtain third-party effect (see question 12).

5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

Yes, as explained under question 3, the principle of reasonableness and fairness plays an important role in Dutch law, and this principle (also) applies to licensing agreements and relationships. Further, under Dutch law it is accepted that, under certain (exceptional) circumstances a party may only terminate a long-lasting commercial agreement for cause. However, the general rule is that those agreements can be terminated for convenience, but it may be necessary to observe a notice period and possibly even financially compensate the other party (see question 37).

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

No, it does not. A licensing agreement can be very similar to a franchise agreement, especially when it concerns a trademark licence. Whether it qualifies as a licensing or franchise agreement does not have great significance; neither concept is defined in the law and both are governed by the principle of reasonableness and fairness (see question 3). Both franchising and licensing are governed by the Commission Regulation on vertical agreements and the EU Guidelines thereto.

The Commission Regulation describes franchising in paragraph 189 as follows:

Franchise agreements contain licences of intellectual property rights relating in particular to trade marks or signs and know-how for the use and distribution of goods or services. In addition to the licence of IPRs, the franchisor usually provides the franchisee during the life of the agreement with commercial or technical assistance. The licence and the assistance are integral components of the business method being franchised. The franchisor is in general paid a franchise fee by the franchisee for the use of the particular business method. Franchising may enable the franchisor to establish, with limited investments, a uniform network for the distribution of its products. In addition to the provision of the business method, franchise agreements usually contain a combination of different vertical restraints concerning the products being distributed, in particular selective distribution and/or non-compete and/or exclusive distribution or weaker forms thereof.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

The Netherlands is a party to all three treaties.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

Such contractual arrangement can be made. However, the principles of reasonableness and fairness – which apply to all contractual relationships (see question 5) – may cause such arrangement to be invalid or be set aside depending on the facts and circumstances of a particular matter. Also, under certain circumstances such an arrangement may be contrary to the applicable competition laws (see questions 32 and 33).

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The effect is governed by the terms of the licence agreement. If the agreement does not provide for such a situation and the licensed right expires, the licence (at least insofar as the expired right is concerned) also ends. If the licensed right is declared invalid, it has (owing to the retroactive effect thereof) never existed. However, this does not affect

the agreement concluded prior to the invalidity insofar as it has been performed prior to the invalidity date. Nevertheless, depending on the circumstances, repayment of royalties already paid may be claimed (article 55 European Trademark Regulation, and article 26 European Design Regulation). After the licence has ended, the licensee can, in principle, freely compete with the former licensor, although the agreement may contain non-compete provisions that survive the termination of the licence. Whether those provisions are enforceable against licensee depends on compliance with competition law. Competing with licensor may under the terminated agreement also be prohibited owing to possible contractual restrictions on the use of licensed secret know-how.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

No, unless a priority right is invoked under article 4C of the Paris Convention.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Under Benelux trademark law, unregistered trademarks do not receive trademark protection (unless they fall within the scope of article 6-bis of the Paris Convention). However, parties can conclude licences for the use of unregistered signs, such as trade names and domain names. Further, unregistered rights such as copyrights or unregistered community design rights can also be licensed, as well as confidential know-how.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

There are no particular requirements for intellectual property licences. The licence can even be granted orally, although a written licence is always preferable for evidentiary purposes.

Trademark, design and patent licences can only be invoked against a third party after registration with the relevant register (holding the registration of the licensed intellectual property right). Copyright licences, however, can be invoked upon their execution.

A security interest in an intellectual property right must be vested by a written deed to that effect, which must contain a description of the pledged subject.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

Yes, the foreign owner or licensor is, in principle, free to act on its own against infringements, but the licensee can join the proceedings to claim its own damages. The licensee cannot initiate proceedings for infringement without the licensor's consent and the licensee can only initiate proceedings of its own to claim damages with the express permission of the owner. However, the Court of Justice of the European Union recently ruled (*Hassan v. Breiding and Thomas Phillips v. Grüne Welle*), that with regard to European Trade Marks and Designs, the holder of an exclusive license may initiate proceedings without the licensor's consent if the licensor does not act after having been urged to do so. It furthermore ruled, that the licensee can take action with consent of the licensor, even if the license has not been registered.

Often, licence agreements contain specific wording on actions to be taken in the event of infringements (who will take the action, how will damages be distributed, etc).

- 14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?**

Benelux trademark law does not allow or prohibit sub-licensing as such. Trademark licences fall within the scope of contractual relations, which are executed between the contracting parties. As a consequence, the licensor should give permission to the licensee for the granting of sub-licences. Further, it is recommended that the licensor and licensee agree on the consequences of the sub-licence (term, conditions, royalties, etc), in order to avoid disputes over time.

- 15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?**

The Netherlands has a 'first to file' system. Patent applications can be licensed. If the patent is not granted, the licensor may terminate the agreement. The licensor may only continue to collect royalties if the licensor continues to make certain efforts for the benefit of the licensee. Usually, the parties will make the validity of the licence conditional upon the patent being granted.

- 16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?**

The 1995 Dutch Patent Act explicitly excludes software and business processes or methods from protection. However, the courts in Europe are becoming more and more lenient in granting patents for software and business processes or methods, if the invention meets certain technical standards. Micro-organisms (bacteria, etc) can in general be patented. Patenting animal and plant species is difficult, but it is possible to patent inventions that are applicable in animals, as well as a wide variety of animals and plants in which a certain invention has been applied (eg, all plants that are resistant against a certain herbicide).

- 17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?**

Dutch law does not yet contain any specific provisions on trade secrets or know-how. However, with the acceptance of the Trade Secrets Directive as per 5 July 2016, member states have a maximum of two years to incorporate the Directive's provisions into domestic law. With regard to licence agreements, the EU Technology Transfer Block Exemption Regulation (772/2004) defines know-how as basically 'secret, substantial and identified'. As know-how or trade secrets are not intellectual property rights, the Enforcement Directive as implemented into Dutch law does not apply to cases on the subject. Cases of unauthorised disclosure of know-how and trade secrets are usually dealt with as tort (such as unfair competition) or breach of contract (such as non-disclosure agreements, employment agreements or otherwise). Pursuant to case law, if the disclosing party has not made clear that the information is confidential, it cannot qualify as know-how. The confidential nature cannot be assumed merely based on the relationship between the parties.

- 18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?**

Yes, the parties can and often do agree that disclosure is restricted and know-how remains confidential even after the term of the licence agreement. However, holding a licensee to such an arrangement while the know-how has meanwhile become public knowledge (through no fault of the licensee), may be in conflict with competition rules. For improvements to which the licensee has contributed, such an arrangement would only work if the licensee assigned its rights to the improvements to the licensor or if it has granted an exclusive (perpetual) licence to the licensor to use the improvements.

- 19 What constitutes copyright in your jurisdiction and how can it be protected?**

Pursuant to the Dutch Copyright Act, works of literature, science or art can be protected by copyright. This includes an unlimited variety of works, including literary, musical and audiovisual works as well as software. In order to qualify for protection, the work has to have its own, original character and bear the personal stamp of the author. The work must be the author's own intellectual creation and cannot be derived from an existing work. Ideas are not protected; the work must be in tangible form. Copyrights allow the author to object to the unauthorised making public or reproducing of the work, and include moral rights. Copyrights arise upon creation of the work and last for 70 years after the death of the author (or after its publication, if the author is a company).

- 20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?**

Yes, this is advisable from the licensor's perspective, as without such assignment the rights (by operation of law) vest in the licensee as author. Moral rights cannot be assigned and can only partially be waived. The assignment should be made in writing and explicitly describe the works involved. Without a clear description, the assignment will be interpreted in a restrictive manner. Assignment of future rights is possible (if sufficiently described), but retroactive assignment is not (see also question 23).

Software licensing

- 21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?**

Dutch law does not prohibit perpetual software licences. However, perpetual licences might not be preferable after the decision of the Court of Justice of the European Union in *UsedSoft v Oracle* (3 July 2012, C-128/11), which has been confirmed since. In that case, Oracle objected to UsedSoft's resale of Oracle licences for standard software, which licences UsedSoft had acquired from Oracle licensees (albeit in violation by the licensee of its contractual obligation not to transfer the licence). The Court sided with UsedSoft and ruled that Oracle had exhausted its rights to distribute the software, as it had sold the first copy of the software in the EU. The Court held that if the licence has been granted for an unlimited period of time and for a one-time fee (representing the economic value of the software), such a transaction actually involves a transfer of the ownership of the software copy and, therefore, constitutes a 'sale'. As a consequence, a perpetual licence (which will have a one-time fee) will be regarded as a sale. The licensor is therefore better off granting a licence for the term of the agreement and at recurring fees.

- 22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?**

No, although depending on the sector and the kind of software, there may be restrictions in the area of 'dual use', when a certain component (also) has (or could have) a military use or purpose.

- 23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?**

In principle, the licensor owns any improvements or modifications its employees make to the software, and the licensor's consent is required to improve or modify the software. If the licensor outsources the creation of improvements or modifications, the third party who made them owns them and the licensor should request to receive those rights through an assignment. However, the licensee is entitled (by statutory licence) to make certain modifications to the software insofar as necessary for the licensee to be able to use the software as intended under the licence. The licensor is only obliged to provide upgrades and

updates if this has been contractually agreed. Usually, licence agreements contain a warranty period during which the licensor must perform bug fixes for free. After that period has expired or – in the absence of a warranty period – after the licensee has accepted the software as delivered, the licensee can only claim repair of hidden defects (see also question 20).

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

Yes, the licensor is entitled to take such measures and circumvention of those measures by the licensee can constitute a criminal offence. If the licensor erases the software, it must of course be careful not to erase any data or property of the licensee in the process. Any of those measures will most likely seriously affect the licensee's business, and the licensee can file proceedings to have a court determine whether the measures were just and allowed. If the court were to find against the licensor, the licensor can be held to compensate the damage incurred by the licensee as a result of the unjust measures.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

Cases on this subject hardly ever make it to court, as they are mostly covered by the applicable contractual provisions (warranties, maintenance, etc, see also question 23) and parties often settle out of court. In general, it is accepted that software is not entirely error-free. The more customised the software is, the more acceptable a certain level of errors is. Consequently, parties almost always contractually agree upon a certain percentage of availability of the software, as well as a classification of errors and a procedure for error-fixing. Whether the software meets the expectations the licensee may have reasonably had under the agreement depends on the facts and circumstances of the case and should be determined on a case-by-case basis.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

Depending on the activities or processes that occur, this could give rise to privacy issues and thus fall within the scope of the Dutch Privacy Act.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

No, there are no specific cases known in the Netherlands in which the enforceability or applicability of the terms and conditions of open source software (OSS) licences have been restricted.

As to the legal developments concerning the use of OSS, the Netherlands is still waiting for its first OSS case in which OSS licences are tested in Dutch courts. Note that the Dutch government had devoted special attention to the use of OSS in the public sector for some time now. To stimulate the use of OSS in the public and semi-public sector, the government of the Netherlands released an action plan called 'The Netherlands in Open Connection'. In short this action plan aims at:

- increasing interoperability in and around government;
- decreasing dependency on suppliers of ICT by promoting open standards and open software; and
- promoting a level playing field on the software market and promoting innovations in ICT through open source.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

No, there is no specific legislation on royalties, nor is regulatory approval required. The parties can contractually agree on interest for late payment and payment terms. Without such agreement, the Dutch statutory interest rate in commercial matters as from 1 July 2013 applies (currently at 8.5 per cent per year) and payments between companies must be made within 30 days. For transactions with consumers, an annual rate of 3 per cent applies.

EU Regulation 2011/7/EU to prevent payment delays in commercial agreements was implemented by the Act of 16 March 2013. The Act only applies to professional parties, not to consumers. Even though professional parties can agree upon payment terms, the Act provides that only under exceptional circumstances is a payment term exceeding 60 days allowed. When dealing with governmental bodies, the maximum payment term is 30 days and can only be extended under exceptional circumstances, but never exceeding 60 days. A creditor can claim €40 as minimum compensation for recovery costs.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

No, there are no restrictions or reporting requirements.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

A corporate foreign licensor will become liable to Netherlands corporate income tax as a foreign taxpayer if the corporate foreign licensor conducts an enterprise in the Netherlands via a permanent establishment and the intellectual property assets subject to the licence can be attributed to that permanent establishment. In that event, the Netherlands will levy 20 per cent corporate income tax on the first €200,000 of profits of the permanent establishment and 25 per cent corporate income tax on the profits exceeding €200,000. The Netherlands does not levy withholding tax on royalties.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

Dutch law does not contain any provisions that prevent a court from rendering a judgment in a foreign currency, if and when so requested by the parties. This could, for example, be the case if the parties have agreed on a foreign currency in the contract, which is the source of the dispute. The parties can also contractually agree on an enforceable indemnity for any shortfall to a foreign licensor owing to currency exchange fluctuations. In doing so, it is advisable to include clear wording on how to calculate the exchange date and possibly even include a reference date or period for such calculations.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Yes, within the Netherlands (and the EU), practices that restrict trade are prohibited. The EU Commission Regulation on vertical agreements provides the relevant framework for the competition law assessment of all licence agreements with an effect on trade between EU member states. The Commission Regulation on vertical agreements, *inter alia*, prohibits resale price maintenance as well as certain restrictions regarding the territory or group of customers that can be served. It is prohibited to limit 'passive sales' from a licensee or reseller (not being the end-user), which includes sales via the internet. It also restricts the duration of a contract in the event that it contains a non-compete clause. Further, EU Commission Regulation No. 772/2004 of 27 April 2004 on the application of article 101(3) of the Treaty to categories of technology transfer agreements (the Commission Regulation on

technology transfer) might apply. The latter Commission Regulation includes restrictions on exclusive grant-back obligations for severable improvements. Whether such provisions are allowed must be determined individually.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

Yes, also see question 32. Pursuant to the Commission Regulation on vertical agreements, the licensor may not restrict or prohibit its licensee or reseller (not being the end user) to (re)sell licences to its customers via the internet. Internet sales qualify as 'passive sales' that may not be prohibited. However, since competition laws continually evolve and licensing arrangements can be rather specific, and also as they could both fall within the scope of the Commission Regulation on vertical agreements or the Commission Regulation on technology transfer as well as under national competition laws, each specific matter should be assessed individually.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

On 8 September 2016 the EU General Court fully upholding the EU Commission's decision that the Danish pharmaceutical company Lundbeck and four generic competitors had concluded agreements that harmed patients and healthcare systems. In 2002, Lundbeck agreed with these four other companies to delay their market entry of cheaper generic versions of Lundbeck's branded citalopram, a blockbuster antidepressant. These agreements violated EU antitrust rules that prohibit anticompetitive agreements (article 101 of the TFEU). It is the first time that it is ruled that pharma pay-for-delay agreements breach EU antitrust rules.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are common and are generally enforceable. However, Dutch courts may always mitigate any penalties agreed upon. Insurance coverage is usually available, depending, of course, on the precise needs and risks.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Yes, parties can contractually agree to waive or limit certain types of damages as well as maximise the amount. Disclaimers are generally enforceable, unless deemed unacceptable under the given circumstances based on the principle of reasonableness and fairness (see question 3). This can especially be the case if there is (serious) inequality between the contracting parties. Further, liability resulting from intent or gross negligence of the (higher) management of a company cannot be excluded or limited.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

Dutch law does not restrict or limit the right to terminate a licence agreement. However, this does not mean that a party can always terminate the agreement and even if it can, it may be obliged to respect a certain notice period or pay compensation or indemnity, or both. A contract with an indefinite term may, in principle, be terminated for

Update and trends

For some time now, the franchise branch in the Netherlands has been busy working on the Dutch franchise code. Since the beginning of 2015, this has been done by a Drafting Committee consisting of two members representing franchisee interests, two members representing the interests of franchisors, and assisted in this by two members provided by the Ministry of Economic Affairs. The activities of the Drafting Committee have initially led to the presentation on 16 June 2015 of a consultation version of the Dutch Franchise Code, after which stakeholders were given a period of (only) six weeks to submit their input to this code. This procedure has led to a great deal of criticism on the part of franchisors, who felt they were not heard and who had given no mandate for the far-reaching obligations contained in the particular code. Other parties too, such as branch associations and similar organisations, objected to the code. The Minister then decided work on the code should be continued, with greater support from the Ministry. This has led to the present version of the Dutch Franchise Code, presented to the Minister by the Drafting Committee on 17 February 2016. In October 2016, the Minister stated he was in favour of transforming the current Dutch Franchise Code into franchise law in the Dutch civil code. According to the Minister this should be effectuated as soon as possible. As the definition of 'franchise' in the Dutch Franchise Code is rather broad, those developments could, besides franchise relationships, also affect other (trademark) licences in the Netherlands.

convenience. This is the prevailing opinion, recently affirmed by the Dutch Supreme Court. However, under certain circumstances a party may have to show cause to terminate the agreement. In any case, a reasonable notice period must always be observed, the length of which depends on the circumstances of the matter. Although standard practice was that courts granted notice periods of up to six to 12 months, some recent higher court decisions imposed notice periods of two to three years, even when the contract stated a shorter period. Further, the terminating party may have to compensate the other party for investments or costs made, which the other party may lose owing to the termination.

A licensing structure can, under certain circumstances, be qualified as a commercial agency relationship in the Netherlands. Important criteria to determine this are:

- is the licensee or sub-licensor (i) a reseller or (ii) an intermediary?
- (i) does the licensee or sub-licensor establish the reseller prices itself, or (ii) are they being fixed by the licensor?
- (i) does the licensee or sub-licensor earn a margin between the purchase price and the resale price or (ii) a commission fee for all licences sold?
- (i) does the licensee or sub-licensor receive the licence fees from customers or (ii) are they collected by the licensor?

The more questions that are answered with (ii), the more likely that a court will deem there to be a commercial agency relationship, in which event a goodwill compensation may be payable upon termination of the licence agreement.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

Without a contractual provision, the sub-licence agreement ends upon the licence agreement ending. This may, however, result in the sub-licensor committing a material breach towards its sub-licensee, if this situation was not properly addressed in the sub-licence agreement. A contractual provision arranging for termination of the sub-licence upon ending of the licence agreement would clarify the position of the parties from the outset and would indeed be enforceable.

Bankruptcy

- 39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?**

A licensor can include the contractual right to terminate the agreement prior to the licensee's bankruptcy; such clauses are common and usually valid. Without an explicit termination arrangement in the event of a bankruptcy of the licensee, the licence remains in place and also a sub-licence will not automatically terminate in such event.

Governing law and dispute resolution

- 40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?**

Pursuant to article 3 of the Rome I Convention, contracting parties can choose the law of another country, but remain bound by mandatory provisions of the country to which the matter exclusively relates (eg, for two Dutch contracting parties, the territory is the Netherlands). Further, parties cannot exclude the applicable EU competition laws and other specific mandatory rules of law, such as goodwill compensation in commercial agency relationships.

- 41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.**

Yes, the parties can jointly choose to submit a case to arbitration rather than to the Dutch courts. The choice for arbitration has to be made in writing. The arbitration can be conducted in a foreign country and a foreign language. Collective or class action arbitration is not addressed, unlike class action claims before a court, in the Dutch Code of Civil Procedure.

- 42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?**

EC Regulation 1215/2012 of 12 December 2012 applies to the recognition of foreign judgments in the Netherlands. Consequently, a judgment from another EU court is enforceable. With regard to non-EU judgments, articles 985 to 994 of the Dutch Code of Civil Procedure (DCCP) apply. Such a judgment can be executed upon approval of a Dutch court. However, if no bilateral treaty applies, the matter should be brought before a Dutch court, which will then decide upon the claim (article 431 DCCP). If the foreign judgment is similar to the outcome under Dutch law, the Dutch court may rule in conformity with the foreign judgment.

The Netherlands is a party to the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards. A foreign arbitration award will be enforced (as per article 1076 DCCP), unless there are reasons for refusal pursuant to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 1958.

- 43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?**

Yes, injunctive relief is available in the Netherlands, both without the defendant being involved (ex parte) as well as between the parties (inter partes). The parties may contractually waive their right to injunctive relief, although this is rather uncommon. In fact, often when parties choose arbitration, they also include the right to obtain injunctive relief. For a (contractual) waiver to be enforceable, it must be unambiguous that the waiving party wishes to waive its right. This can be the case if the waiving party has given the clear impression that it will not invoke a certain right. However, for evidentiary purposes we recommend that the waiver is done in writing. The right to claim certain types of damages may also be excluded.



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Overview

- 1 Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?

Foreign licensors are very welcome in New Zealand. If a foreign licensor wishes to establish a New Zealand company, it must comply with the Companies Act 1993 and the Financial Reporting Act 2013. In relation to the formation of a company, new registration requirements pursuant to the Companies Amendment Act 2014 include the following:

- all companies incorporated in New Zealand must have a director who lives in New Zealand, or lives in Australia and who is also a director of an Australian incorporated company; and
- all directors must provide their place of birth and date of birth.

This is a departure from the previous position whereby a director resident anywhere in the world could be appointed as a director of a New Zealand company. If a foreign business entity holds 25 per cent or more of the shareholding in a company, the company must be audited and must file financial statements pursuant to the Financial Reporting Act 2013. In relation to foreign investment, there are no barriers for funds coming into New Zealand. If a foreign entity wishes to buy land in New Zealand and the land is greater than five hectares in area, an application must be made to the Overseas Investment Office for consent to the purchase before it can proceed.

Kinds of licences

- 2 Identify the different forms of licence arrangements that exist in your jurisdiction.

In New Zealand there are many types of licence arrangements, including product licensing, trademark or service mark licensing, software licensing, patent and know-how licensing, and technology transfer licensing. The term 'licensing' means the granting of permission to use intellectual property rights (IPRs), such as trademarks, patents, or technology, under defined conditions. There is no statutory definition of a licence in New Zealand.

Law affecting international licensing

- 3 Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.

There is no legislation governing the creation of an international licensing relationship and there is no legal requirement for registration of a licence with local authorities in New Zealand. There are no limitations on royalty rates or other fees that may be charged by a licensor.

- 4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

Section 12A of the Fair Trading Act 1986 prohibits any unsubstantiated representations made in trade. While there is no explicit requirement imposed on a licensor to make pre-contractual disclosure to its prospective licensees, a licensor must be able to substantiate any representation it makes in relation to its name and brand by documented research or other proof at the time of making the representation. There are no requirements to register a grant of international licensing rights with authorities in New Zealand.

- 5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

The licensing relationship may be affected by some important law changes such as the Consumer Guarantees Act 1993 (CGA) and the Fair Trading Act 1986 (FTA). The changes aim to:

- make consumer law more accessible and understandable for both consumers and businesses;
- simplify business compliance;
- strengthen consumers' rights;
- create more effective and enforceable consumer laws;
- better align New Zealand and Australian consumer law.

The CGA includes new provisions relating to goods sold at auction, delivery of goods guarantee, faulty goods or services bought on credit and new acceptable quality guarantee for electricity or gas supply.

The FTA changes relate to extended warranties, unsubstantiated claims about products, door-to-door and telemarketing sales, unsolicited goods and services, online selling and layby sales. There are also new rules about business-to-business contracting out of certain provisions of the FTA and new obligations and restrictions that relate to unfair contract terms in standard form consumer contracts. The penalties for contravening the FTA have been increased to a maximum of NZ\$200,000 for individuals and NZ\$600,000 for body corporates.

Except for the comments above there are no statutorily or court-imposed implicit obligations in relation to good faith or fair dealing.

- 6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

There are no laws that distinguish between licences and franchises.

Intellectual property issues

- 7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

New Zealand is a party to the Paris Convention for the Protection of Industrial Property. The Convention began with the Paris Convention,

London Act of 14 July 1946. There is also a Paris Convention Stockholm Act, articles 13 to 30, dated 20 June 1984. New Zealand is also a party to the PCT, from 1 December 1992. In addition, New Zealand is a party to the Trade-Related Aspects of Intellectual Property Rights, from 1 January 1995. New Zealand has been a member of each of these since the early days of their promulgation and tends to be a supporter of IPRs worldwide.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

Yes, the licensee can be contractually prohibited from contesting the validity of a foreign licensor's IPRs or registrations, and there does not appear to be a law that would preclude this; it would be prudent for such a clause to be included in any agreement.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

If a trademark or patent (or any other IPR capable of registration, like a registered design) expires in relation to its registration or is declared invalid, then the legal effect would be to take away the protection of such IPR that may lead to abuse of it by a licensee. However, the tort of passing off would assist any licensor should a renegade licensee try to take advantage of the situation, but a licensee who is not the subject of a legally binding licence agreement would be free to compete.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

There is no such registration or evidence of use necessary, but any New Zealand registration of intellectual property would certainly be expedited if the intellectual property were registered in an overseas jurisdiction. Any new registration in New Zealand must go through the Intellectual Property Office, which is based in Wellington. There is always a time lapse for objections and legal requirements.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

An unregistered trademark may be licensed and is a matter of contract, and there is no statute that would preclude this. However, trademarks should always be registered to enable full protection for the owner. The two main grounds to claim a right in an unregistered trademark are under the common law of passing off or a claim under the Fair Trading Act 1986.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

In relation to the validity of an intellectual property licence, the relevant law or statute in New Zealand must be complied with. The subject matter of the protection sought must not be illegal or offensive and the legal procedures must run their course. As to whether an intellectual property licence could be opposable to a third party, it would depend on the circumstances of the particular case and whether a third party has any legal rights to object. As for taking a security interest in intellectual property, the Personal Property Securities Act 1999 (PPSA) allows for the registration of a security interest in 'personal property', which is defined in the PPSA as including intangibles. Intangible property includes intellectual property such as trademarks, patents, designs and copyright.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

A foreign owner may institute proceedings in such a manner without joining the licensee, although it would be normal for the foreign owner or licensor of intellectual property to consult with the New Zealand licensee, who may be very helpful in providing information for the attack on the infringing third party. In relation to proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor, it would depend upon the exact wording of a clause in the relevant agreement. Normally, however, an agreement should preclude a local licensee from attacking an infringer without the consent of the owner or licensor.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

A trademark or service mark licensee could only sub-license the use of that mark to a third party if the agreement provided such a right. It would be unusual in our opinion, and such agreement should preclude any right to sub-license.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

In New Zealand it is the 'first to file' who wins a patent application. There is an arrangement between New Zealand and Australia that if a company lodges a trademark application in one jurisdiction on a particular date and later files the same trademark application in the other, then in relation to the second jurisdiction the date of filing will be back-dated to the original date of filing in the first.

A foreign licensor may license the use of an invention subject to a patent application for which the patent has not been issued in New Zealand.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

The Patents Act 2013 provides for the appointment of an office and place for the purpose of communications to and from the public on matters arising under the Act, the power to appoint a Maori Advisory Committee, appointment of the Commissioner and Assistant Commissioners of Patents, and regulation-making powers.

A number of exclusions are included in the new Act and they include:

- an invention is not patentable if the commercial exploitation of the invention is contrary to public policy or morality;
- computer programs;
- plant varieties;
- human beings and biological processes for their generation;
- inventions of methods of treatment of human beings by surgery or therapy; and
- inventions of methods of diagnosis practised on human beings.

The most significant changes include a tougher examination of patent applications, stricter deadlines, subject matter exclusions, more challenge options and annual renewal fees.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

There is no specific legislation that governs trade secrets or know-how, but there are common law principles that would apply and give protection. In particular, there are laws covering breach of confidential

information, which includes know-how, business data, trade secrets, product and process inventions.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

New Zealand law allows a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties, and it is a matter of contract. There are no restrictions except in the area of restraint on competition or restraint of trade, both during the term and after the expiration of the term or termination of a licence agreement. If restraints on competition are too wide and basically too tough, they will be determined to be against public policy and be declared illegal pursuant to the Illegal Contracts Act 1970. There is no distinction to be made with respect to improvements to which the licensee may have contributed.

19 What constitutes copyright in your jurisdiction and how can it be protected?

The law relating to copyright in New Zealand is contained in the Copyright Act 1994. There is no registration system for copyright, although, as a signatory to the Berne Convention, it is possible to register copyright works internationally. In essence, copyright is inherent, but it is not the ideas that are protected by copyright: it is the tangible evidence of skill, labour and judgment that have resulted in the copy-right work.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

Such a provision is advisable, but not essential.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Yes, New Zealand law recognises perpetual software licences. However, very explicit wording would be required before a court would conclude that an agreement was intended to be perpetual.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

There are no restrictions in relation to software licences unless the subject matter is offensive or against public policy. There are no prohibitions in relation to parallel importing and there are no restrictions, as far as we are aware, on the import or export of software.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

Unless the contract provides otherwise, the licensor would own any improvements and modifications to the licensed software. In relation to a software licensee obtaining bug fixes, upgrades and new releases from the licensor, there must be a suitable provision in the contract or such would be unenforceable against the licensor.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

Such processes are allowed, and such a provision is fairly common and recommended to protect the licensor.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

We are not aware of any such cases in New Zealand. In fact, a review of court records reveals that since 1953, when the previous Patents Act came into force, there has not been a single court case to enforce a New Zealand computer-implemented invention.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

The Consumer Guarantees Act 1993 (CGA) includes computer software in the definition of 'goods' and that suppliers guarantee that the goods will (among other things) be fit for a particular purpose. Section 8 of the CGA states the following:

- (a) *that the goods are reasonably fit for any particular purpose that the consumer makes known, expressly or by implication, to the supplier for the purpose for which the goods are being acquired by the consumer; and*
- (b) *that the goods are reasonably fit for any particular purpose for which the supplier represents that they are or will be fit.*

Section 16 in Part 2 of the CGA gives the consumer a right of redress against the supplier where the goods fail to comply with any guarantee in section 8, and section 18 provides remedies including requiring the supplier to remedy the failure. In addition, under section 18(4) the consumer may obtain damages for any loss or damage to the consumer resulting from the failure.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

As far as we are aware, the courts have not restricted the enforceability or applicability of the terms and conditions of public licences for open source software. There have been no legal developments concerning the use of open source software in New Zealand.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

There are no laws affecting royalties in such a manner.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

Although there are no restrictions on the transfer and remittance of currency from New Zealand to an overseas jurisdiction, the tax laws of New Zealand must be complied with. In relation to the payment of royalties, dividends or interest, non-resident withholding tax (NRWT) must be deducted by the payee (or licensee) before the funds are remitted to the overseas licensor. The tax deduction must be paid by the New Zealand licensee to the New Zealand Inland Revenue Department (IRD), but a tax credit would be available to the overseas licensor. The rate of tax varies depending on the country involved, and New Zealand has double taxation treaties with a large number of countries. For example, in relation to Australia, Japan, Singapore and the United States, the rate of NRWT is 5 per cent in relation to royalties, and in relation to Canada, China, Taiwan and the UK, the rate is 10 per cent. In relation to Fiji, Indonesia, Malaysia and the Philippines, the rate is 15 per cent.

Update and trends

A proposed law change currently before Parliament is the Commerce (Cartels and Other Matters) Amendment Bill. This Bill better targets the civil prohibition against cartels. Another objective of the amendment Bill is to ensure that firms are not deterred from entering into legitimate, pro-competitive and efficient arrangements with other firms. It does this through a number of new exemptions as well as a clearance mechanism, which enables parties contemplating collaborative conduct to test with the Commerce Commission whether the arrangement would raise concerns. In assessing whether conduct is prohibited, the Commerce Commission and the courts are likely to look at business documentation such as emails, file notes, board documents and business arrangements, as well as oral evidence from individual persons.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

A foreign franchisor may be taxed on its income in New Zealand but it will certainly be taxed when it tries to move that income offshore. NRWT must be deducted by the New Zealand paying entity and paid to the New Zealand IRD, and the net amount available would be remitted by the licensee to the foreign licensor.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

There is precedent in New Zealand for suing in a foreign currency but it would be very uncommon.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Such practices would be governed in New Zealand by the Commerce Act 1986, and great care must be taken by any foreign licensor to comply with that Act, as the penalties for non-compliance are severe.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

In relation to duration, exclusivity and grant-back provisions, there are no legal restrictions. However, if any agreement is deemed to be in perpetuity (in relation to duration) then that can have some inherent problems as the courts have ruled that nothing lasts forever and, in relation to one party wishing to terminate the arrangement or contract, the courts may allow a reasonable period of notice (six or 12 months) to be given, after which the agreement could be legally terminated.

In relation to non-competition restrictions, if such restrictions are unreasonable or unfair, then the courts will not enforce them, so great care must be taken in drafting. Australia commonly has 'sprinkler clauses' under which one party will try to restrict the other party for different periods in relation to different geographical restrictions. The New Zealand courts are unimpressed by such clauses and will normally strike them out, with the end result that there may be no restriction on competition. It is always essential to obtain a local counsel's advice in relation to this area.

The Commerce (Cartels and Other Matters) Amendment Bill is before Parliament and is expected to become law in 2017. The proposed legislation introduces a new cartel prohibition that replaces the existing price-fixing prohibitions of the Commerce Act 1986. These prohibitions apply to cartels comprising competitors and as a general rule licensing relationships should not be caught.

However, a more academic interpretation may say that licensees could be competitors and that their respective entries into licence agreements with a licensor might make them parties to a cartel provision (which may divide a market and regulate prices, for example). In that event, it is likely that a 'collaborative activity' exemption in the Bill would apply that would provide an exemption to a cartel provision in an arrangement where it is an enterprise 'carried out by two or more

people in trade and is not carried on for the dominant purpose of lessening competition between any two or more of the parties'. There are also exemptions for collaborative marketing and promotions.

Noting the above, the new Act could have significant repercussions for licensing. The Commerce Commission has explained that under the Bill a cartel provision is any provision in an arrangement between competitors that has the purpose, effect or likely effect, of:

- fixing prices – for example, an agreement not to compete on price or on any element of price;
- restricting output – for example, an arrangement to prevent, restrict or limit output, production capacity, supply or acquisition; or
- allocating markets – for example, an agreement not to sell or to buy from certain customers or suppliers, or in particular areas.

It is important to note that there will not be a cartel arrangement in place where parties are not in competition with each other. In most licence systems the licensor will not be in competition with its own licensees but that is not always the case. For example, a licensor that owns its own outlet might be found to be in competition with licensees. Similarly, where a licensor sells online direct to the end consumer, yet at the same time has licensees who sell to those consumers, it may also be in competition with its licensees. There may also be instances where the licensees are in competition with each other. Where a licensor is in competition with a licensee or where licensees are found to be in competition with each other, there will be a competitive relationship so the licensor needs to be cognisant that there may be provisions in its licence agreements that amount to cartel provisions.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

Having looked at recent cases, we are unaware whether the courts in New Zealand have held that certain uses (or abuses) of intellectual property rights have been anticompetitive. There is some discussion on this topic in Gault on Commercial Law, but there do not seem to be any court decisions.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are commonly used in New Zealand, and they are generally enforceable. As far as we are aware, insurance coverage for the protection of a foreign licensor is available in support of an indemnification provision.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Yes, parties may agree to waive or limit damages. Such disclaimers and limitations of liability should be generally enforceable. However, if the purported limitation of damages is unreasonable then the relevant party would most likely not sign the agreement.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

To the best of our knowledge, New Zealand's laws do not impose any conditions in relation to the right to terminate or not to renew an international licensing relationship, or require the payment of an indemnity or other form of compensation upon termination or non-renewal. As far as we are aware, the courts in New Zealand have not extended to

licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities.

- 38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?**

The normal rule would be that any sub-licence arrangement would fail and be terminated should the (head) licence agreement be terminated or expire through the effluxion of time. However, any licensor would probably want to continue with a sub- licensee, but there would be no obligation to do so if there was no contractual provision. If a suitable contractual provision was included and acknowledged by both parties then that provision would be enforceable.

Bankruptcy

- 39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?**

Bankruptcy in New Zealand only applies to a person, and normally a licensee would be a company. However, if the licensee is a person who is adjudicated bankrupt, then that would be a ground for the licensor to terminate the licence agreement. If the licensee is a company and it becomes insolvent and goes into receivership or liquidation then, again, that event would give the licensor the right to terminate the licence agreement. Upon termination all of the rights of any licensee would cease, but the liability of the licensee would continue in relation to any unpaid monies owed to the licensor. If the licensee is a company and has only one director and that director is adjudicated bankrupt then the agreement would normally trigger an event of termination, which would allow the licensor to terminate the licence agreement.

Governing law and dispute resolution

- 40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?**

As far as we are aware there are no such restrictions.

- 41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.**

It is recommended that the parties contractually agree to arbitration of any disputes instead of resorting to the courts, but any agreement

should provide for the right of either party to seek injunctive relief if the matter is very serious and an injunction is the right remedy. In relation to arbitration, the relevant statute in New Zealand is the Arbitration Act 1996. However, arbitration proceedings can be conducted in any jurisdiction, provided the parties agree at the outset and there is a relevant clause in the agreement covering the matter. A foreign licensor could issue proceedings in New Zealand and sue a particular licensee, but the courts may require an attempt to settle any dispute by way of mediation. The governing law in any licence agreement is important and most foreign licensors require the governing law to be that of their home country. The parties cannot agree to preclude collective (or class action) arbitration.

- 42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?**

A foreign judgment has no direct operation in New Zealand. However, some foreign judgments may provide the basis upon which a New Zealand court will grant a judgment, which will then be enforced in the same way as any New Zealand judgment. At common law, a New Zealand court may grant judgment to enforce a money judgment given against a defendant by a foreign court whose jurisdiction over the defendant is recognised by New Zealand's Rules of Private International Law, provided the judgment is for a debt or definite sum of money other than a sum payable in respect of taxes or other charges of that nature, or in respect of a fine or other penalty, and the foreign judgment is final and conclusive. There are certain types of judgments given in foreign courts which, as a matter of public policy, a New Zealand court will decline to enforce. Examples are attempts to enforce foreign revenue and penal law, judgments obtained by fraud and judgments given overseas in breach of the rules of natural justice as applied in New Zealand.

- 43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?**

Injunctive relief is available and, in our opinion, all agreements should contain an injunctive relief provision to protect the parties should one party 'go off the rails'. It would be highly unusual for the vulnerable party to waive contractually the injunctive relief provision, but if they did it would be enforceable. Any conditions which must be met must be a matter of contract as the court is unlikely to imply any provisions. The parties may waive their entitlement to claim specific categories of damages in an arbitration clause, but it would be unusual to have such a provision.



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Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

A non-Nigerian is at liberty to invest and participate in the operation of any Nigerian enterprise in any business sector excluding sectors contained in the 'negative list', which is a list of sectors where Nigerian and non-Nigerian investors are prohibited from participating. The sectors listed in the negative list include:

- the production of arms and ammunition;
- the production of and dealing in narcotic drugs and psychotropic substances;
- the production of military and paramilitary clothing and accoutrements including those of the police and the customs, immigration and prison services; and
- other items as the Federal Executive Council may from time to time determine.

Certain industries, especially in the energy sector, also have local content regulations, which regulate foreign participation in the sector. Apart from these exceptions, a foreign licensor may establish any business entity in Nigeria or may be involved in a joint venture.

There are no restrictions that prevent a foreign licensor from entering into a licence or joint venture agreement without establishing a subsidiary or branch office. However, an enterprise with which a foreign licensor enters into a joint venture or licence agreement must be registered or incorporated with the Corporate Affairs Commission (CAC) before it may commence business in Nigeria.

In addition to the registration formalities with the Companies Registry of the CAC, the locally incorporated company with foreign participation must subsequently apply to the Nigerian Investment Promotion Commission (NIPC) for a Certificate of Business Registration and business permit at the NIPC and Federal Ministry of Interior respectively, as well as obtaining other necessary licences and approvals for commencement of business in Nigeria.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

The different forms of licences in existence in Nigeria include:

- franchise business arrangements;
- software licences;
- technical services;
- patent licences;
- trademark licences; and
- copyright licences.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

The National Office for Technology Acquisition and Promotion Act (NOTAP Act) (Cap N62 Laws of the Federation of Nigeria (LFN)), establishes the National Office for Technology Acquisition and Promotion (NOTAP), which is saddled, among other things, with the duty of ensuring that the acquisition of the best contractual terms and conditions by Nigerians entering into any contract or agreement for the transfer of foreign technology is achieved. To this end, NOTAP is empowered to register all contracts or agreements for the transfer of foreign technology including, but not limited to, the use of trademarks, and the supply of technical expertise in the form of the preparation of plans, diagrams, operating manuals or any other form of technical assistance of any description whatsoever (collectively Registrable Contracts) or to refuse registration of the Registrable Contracts where the price or other valuable consideration thereof is not commensurate with the technology acquired or to be acquired.

In order to achieve its objectives, NOTAP has, via the Revised Guidelines for the Registration and Monitoring of Technology Transfer Agreements in Nigeria (NOTAP Guidelines), capped the fees and royalties payable under Registrable Contracts at a fixed percentage, net sales of revenue or project cost. The NOTAP Act also prevents the registration of agreements where the contract is expressed as exceeding a period of 10 years.

- What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

In Nigeria there are no laws requiring mandatory pre-contractual disclosures between parties to an agreement. However, a misrepresentation by the licensor would render the licence agreement voidable under the general common law principles of contract.

As stated in question 3, international licensing agreements must be registered with NOTAP, where such a licence involves the transfer of foreign technology in the form use of trademarks, inventions, supply of machinery or plant, provision of operating staff and training of personnel among others.

- Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?**

There are no specific obligations except those recognised by common law, principles of contracts and generally used covenants in such agreements.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Nigeria does not have a specific statute that regulates licences or franchises and no specific law distinguishes between the two contractual arrangements. However, there are a number of regulations in force in the country that affect both licensing and franchising in Nigeria, these include:

- the Patents and Design Act 1970 (Cap P2 LFN 1990);
- the Trademark Act 1965 (Cap CT13 LFN 1990);
- the Copyright Act 1988 (Cap C28 LFN 1990);
- NOTAP Act No. 70 of 1979 (Cap 268 LFN 1990);
- the NIPC Act (Decree No. 16 of 1995), now Cap N117 LFN;
- the Foreign Exchange (Monitoring and Miscellaneous Provisions) Cap F34 Decree No. 17 of 1995; and
- Consumer Protection Council Act of 1992 (Decree 66 of 1992 Cap C25 LFN).

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Nigeria is a signatory to the above treaties.

Nigeria signed up to the Paris Convention for the Protection of Industrial Property on 17 July 1963, the Patent Cooperation Treaty on 8 February 2005 and the TRIPs Agreement from its inception on 1 January 1995.

It is important to mention that under the Nigerian Constitution, a treaty would have the force of law in Nigeria only if and when it has been enacted into law by the Nigerian legislature. In view of this requirement, it is necessary to point out that certain provisions of these treaties have not been incorporated into the country's legislation and are, therefore, not enforceable.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

The licence agreement between a licensee and a foreign licensor can prohibit the licensee from contesting the validity of the licensor's intellectual property rights. In fact, it is usual to include this prohibition as a term in licence agreements.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The invalidity or expiration of a trademark registration does not, by itself, render a trademark licence ineffective, provided common law rights to the trademark continue to subsist. In other words, because the use of the mark creates common law rights that are independent of the statutory rights, the licence agreement would remain effective (on the basis of the common law rights) even if the registered trademark is invalidated.

Upon the expiration of a copyright, any licence in respect of the copyright would no longer be effective. The copyright work, upon the expiration of the copyright would be available for public exploitation, thus, a licensee may freely exploit the copyright work upon the expiration of the copyright.

With respect to patent and industrial designs licences, the expiration of the patent or industrial design renders the patent or industrial design available for public exploitation. Thus, a patent or industrial designs licence is invalid upon the expiration of the underlying patent or industrial design registration and the patent or industrial design may be exploited by the licensee.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

Prior registration or evidence of use in a foreign jurisdiction is not a precondition to the registration of any intellectual property right in Nigeria. There are also no special requirements applicable to foreign nationals prior to registration of intellectual property in Nigeria.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Unregistered trademarks may be licensed on the basis of the common law rights to the unregistered trademark.

There is no requirement to register copyright, thus, an unregistered copyright may be licensed. Although the Copyright Act provides a copyright notification system that allows copyright holders to notify the Nigerian Copyright Commission of their copyright ownership, this notification system does not confer copyright but merely provides (rebuttable) evidential proof of copyright.

A patent can be acquired only through registration. It is, therefore, not possible to licence, or in fact own, an unregistered patent.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

Validity

There are no specific requirements for the validity of a trademark licence. Although The Nigerian Trademarks Act provides for the registration of a licensee as a registered user, the wording of section 33 of the Act suggests that such registration is optional, rather than compulsory. It would, therefore, appear that a trademark licence agreement is valid as long as the elements of a valid contract are in place, namely, offer, acceptance, consideration and intention to create legal relationship.

With respect to patents and industrial designs, section 23(1) of the Patents and Designs Act (Cap P2 LFN 2004) requires that agreements to licence a patent or industrial design must be by a written contract. Section 23(2) of the Act also requires all such licences to be registered at the Patents and Designs Registry and expressly stipulates a patent or industrial design licence would be of no effect against third parties until registration is effected and the prescribed fee paid. In addition, any clause in the licence that imposes restrictions that do not derive from the rights conferred by the relevant patent or design is rendered invalid by virtue of section 23(3) of the Patents and Designs Act.

The Copyrights Act (Cap C28 LFN 2004) does not prescribe any special requirement for a valid copyright licence. It recognises that a copyright licence may be oral or inferred by conduct. However, where the licence is an exclusive copyright licence, the Act provides that such licence shall be of no effect unless it is in writing.

Right to oppose

A third party may oppose a licence agreement (by instituting a court action) as long as he or she has a locus standi, namely, is able to show that the licence agreement adversely affects his or her civil rights.

Security

It is possible to take a security interest in intellectual property. There are no requirements to register a security interest with the relevant registries.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

A foreign licensor can institute infringement proceedings in Nigeria without necessarily joining the local licensee as a party. However, by virtue of section 16(3) of the Copyright Act, where an exclusive licence exists in respect of a copyright, the copyright owner and licensor may

not proceed with an infringement action without the exclusive licensor being joined as a plaintiff or defendant, unless the court grants leave to the contrary.

Trademarks

A registered user of a trademark can institute infringement proceedings against a third party and may also join the licensee as a defendant if the conditions prescribed in section 33(4) of the Trademarks Act are met. The said section provides as follows:

Subject to any agreement subsisting between the parties, a registered user of a trade mark shall be entitled to call upon the proprietor thereof to take proceedings to prevent infringement thereof, and if the proprietor refuses or neglects to do so within two months after being so called upon, the registered user may institute proceedings for infringement in his own name as if he were the proprietor, making the proprietor a defendant.

Thus, the conditions upon which a trademark licensee may institute an infringement action without the licensor's consent are that:

- the licensee must be a registered user (in other words, the licence must be registered at the Trademarks Registry); and
- the licensee must have called upon the proprietor to institute the infringement and the proprietor must have neglected or refused to take any action within two months of being so called upon.

Notwithstanding the existence of the foregoing conditions, the licensee may be contractually prohibited from instituting such an action. In other words, if the licence agreement prohibits the licensee from instituting such an action without the licensor's consent, the licensee cannot rely on the above provisions.

Copyright

Section 16(1) of the Copyrights Act provides that an action for infringement of copyright shall be actionable at the suit of either the owner, an assignee or an exclusive licensee of the copyright. Thus, an exclusive licensee of copyright may institute an infringement action. However, the exclusive licensee shall not, without the leave of the court, proceed with the action unless the copyright owner or licensor is joined as a plaintiff or added as a defendant.

A copyright licensee may be contractually prohibited from instituting an infringement action without the consent of the copyright owner.

Patents and designs

A patent or designs licensee may institute an infringement action against a third party if the licensee has requested the patentee or design owner to institute proceedings against the infringer and upon receipt of the registered letter, the licensor unreasonably refuses or neglects to institute the proceedings.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

The Trademarks Act does not confer on a licensee any right to grant sub-licences. A trademark licensee may sub-license use of the trademark to third parties only if the licence agreement so expressly grants the licensee a right to create sub-licences.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Nigeria is a first to file jurisdiction. Section 2 of the Patent and Designs Act vests patent rights on the statutory inventor, namely, the person who, whether or not he or she is the true inventor, is the first to file or validly to claim a foregoing priority for a patent application in respect of the invention.

A licensor may license the use of an invention in respect of which a patent application is pending. The use of such an invention does not destroy the novelty of the invention for the purpose of granting the

patent, provided that the patent application was filed before the use of the invention.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

The Nigerian Patents and Designs Act makes no reference to software or business methods inventions. These genres of inventions are neither excluded under section 1(4) and (5) of the Act, which exclude certain subject matters from patentability, nor are they specifically protected under the Act. Further, the Patents and Designs Act does not offer a definition of the word 'invention' from which it may be determined whether software and business method inventions are 'inventions' under the Act. The absence of clear provisions on the software or business methods leaves the subject of the patentability of software and business method in Nigeria open to debate, especially as the patentability of these subject matters have not yet been considered by Nigerian courts.

Section 1(4) of the Patents and Designs Act prohibits the patenting of 'plant or animal varieties, or essentially biological processes for the production of plants or animals (other than microbiological processes and their products)'. Thus, in a technical sense, living organisms, which are neither classified as plants nor animals, as well as microbiological products, may be patented.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

There is no specific legislation that governs trade secrets or know-how in Nigeria. These subject matters are protected by common law. The courts protect trade secrets and know-how by enforcing contractual agreements that restrict the disclosure of trade secrets and know-how, for example, non-disclosure agreements, confidentiality agreements and other similar agreements.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

The law allows the licensor to restrict disclosure or use of trade secrets and know-how by the licensee but only during and after the terms of the licence. In fact, the existence of such contractual restriction is a precondition for the enforcing of trade secrets against a licensee. There is usually no distinction made with respect to improvements to which the licensee may have contributed and the licensee may be restricted from disclosing such improvements.

19 What constitutes copyright in your jurisdiction and how can it be protected?

Copyright is the exclusive right to control the carrying out of certain acts in relation to works that are eligible for copyright, namely, literary works, musical works, artistic works, cinematograph films, sound recordings and broadcasts. A literary, musical or artistic work would qualify for copyright protection only if sufficient effort has been expended on making the work to give it an original character and the work has been fixed in any definite medium of expression.

Copyright is protected statutorily under the Copyrights Act (Cap C28 LFN 2004) and the protection is automatic for all qualifying works. Registration of works is not a precondition for protection of copyright.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

It is to the benefit of the licensor to require the assignment of copyright by the licensee for contribution of the latter to the original work, insofar as such contribution can be copyrighted. However, the Copyright Act makes provision for joint ownership of copyrightable rights.

Software licensing

- 21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?**

There are no express statutory provisions on the perpetuity of software licences and this matter has not been dealt with by the Nigerian courts. It is, however, to be noted that software or computer programs are protected under the Copyright Act as literary works and the protection expires 70 years after the end of the year in which the author dies. Thus, the perpetuity of a software licence must be subject to the statutory duration of the copyright.

- 22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?**

The production, distribution, leases, trading and import of software are subject to registration with NOTAP.

- 23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensee bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?**

Unless parties' contract state otherwise, a licensee who has developed an improvement on licensed software has a right to the improvement, provided that the improvement is not one that obviously flows from the licensed software. (In other words, the difference between the improvement and the licensed software must be significant and not such that a person skilled in the art to which the improvement relates would easily develop.)

Parties may, however, by their contract vest ownership of any improvement on the licensor. It is necessary, however, to state that the NOTAP Act prevents the registration of any agreement that includes an onerous or gratuitous obligation on the licensee to assign to the transferor any improvements obtained by the licensee with no assistance from the licensor.

A software licensor is not bound to provide its licensee with bug fixes, upgrades and new releases in the absence of an agreement on the same. It is, however, in its best interests to do so, as absence of such bug fixes, upgrades and new releases may lead to defects or malfunctioning of the licensor's software when in use by the end user. This could have an effect on the trust placed in the software by the end users.

- 24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?**

Yes, a licensor is allowed to take technical measures for the protection of its copyright so as to block or limit unauthorised access.

- 25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?**

The Nigerian courts have not dealt with this yet.

- 26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?**

The Cybercrimes (Prohibition, Prevention, Etc) Act 2015 makes it an offence for any person without lawful authority, intentionally or for fraudulent purposes:

- to do any act which hinders the functioning of a computer system by imputing, transmitting, altering computer data or any form of interference that prevents it from functioning in accordance with its intended purpose; or
- to intercept by technical means, non-public transmissions of computer data, content, or traffic data, including electromagnetic emissions or signals from a computer, computer system or network carrying or emitting signals, to or from a computer, computer system or connected system or network.

- 27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?**

To the best of our knowledge, the Nigerian courts have not dealt with this issue yet.

Royalties and other payments, currency conversion and taxes

- 28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?**

The NOTAP guidelines made pursuant to the NOTAP Act specifies royalty rates and fees payable in respect of international licensing agreements to which a Nigerian is a party, provided the contract is one registrable under the Act (that is, involving the transfer of foreign technology). The guidelines, however, do not contain provisions of interests on late payments.

- 29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?**

Section 15 of the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act requires a licensed bank through which foreign currency is imported into Nigeria to issue a certificate of capital importation (CCI) within 24 hours of the inflow of the funds into Nigeria and to make returns to the Central Bank of Nigeria within 48 hours thereafter. The Certificate of Capital Importation serves as evidence of the inflow of foreign currency and is required to be tendered in order to obtain foreign exchange for repatriation or remittance of the proceeds of the importation of foreign currency.

- 30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?**

Under section 13 of the Companies Income Tax Act, foreign or non-resident companies are liable to tax for profits earned directly from Nigeria where:

- the foreign company has a fixed base in Nigeria;
- it does not have a fixed base in Nigeria but habitually operates a trade or business through a person in Nigeria or through a company controlled by it or that has a controlling interest in it;
- the trade involves a single contract of surveys, deliveries, installation or construction; or
- the trade or business is between a company controlled by it and conditions are imposed by the foreign company in their commercial and financial relations, which, in the opinion of FIRS, is deemed to be artificial or fictitious.

It is important to note that the Companies Income Tax Act imposes withholding tax on royalty payments at the rate of 10 per cent and the withholding shall be the final tax due from a non-resident recipient of the royalty.

A foreign licensor will be able to take advantage of the benefits of the double taxation agreement if the licensor is resident in a country that has a double taxation agreement with Nigeria. These countries are Belgium, Canada, France, the Netherlands, Northern Ireland, Pakistan, Romania and the United Kingdom. Non-resident companies in these countries are granted a reduced rate of withholding tax of 75 per cent of the generally applicable withholding tax rates.

- 31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?**

The courts in Nigeria can render judgments in a foreign currency. However, for the purposes of enforcement within the Nigerian

jurisdiction, the said monetary judgment may be converted into the local currency (naira).

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

There is no comprehensive competition legislation in Nigeria. Matters relating to restraint of trade are governed by common principles and dealt with by various legislation. Examples of such principles and legislation include:

- the English Common Law Rules, with respect to covenants in restraint of trade, form part of the Nigerian Law of Contract and have been recognised by the Nigerian courts. Generally, in Nigeria, covenants in restraint of trade are prima facie void and would only be enforceable if it can be established that the covenants are reasonable with respect to the parties thereto and the public as a whole;
- the NOTAP Act, which, primarily, prevents the transfer of obsolete technology to Nigeria. The NOTAP Act prohibits exclusive dealing, resale price maintenance, excessive pricing, tying clauses, grant-back clauses and sourcing restriction. It is imperative to note that the aforementioned provisions may be waived by the Director of NOTAP if he or she feels that it will be in the national interest of Nigeria to do so;
- the Price Control Act (Cap P28 LFN 2004) vests in the Minister of Trade and Commerce the power to approve resale price maintenance with respect to certain commodities;
- the Patent and Designs Act (Cap P2 LFN 2004) renders null and void any clause in a licence contract that imposes on the licensee in the industrial or commercial field restrictions that do not derive from the rights conferred by the relevant patent or design or are necessary for the safeguarding of those rights;
- the Nigerian Communication Commission Act and the Competition Practices Regulation 2007, made pursuant thereto, prohibit tying agreements, price fixing and market sharing. The Regulation also deems conduct such as failure to supply interconnection or other essential facilities, bundling of communication services, discriminatory terms and conditions with respect to licensees, resale price maintenance and exclusive dealing as conduct that substantially lessens competition; and
- the Air Transport Economic Regulations 2012 made pursuant to the Civil Aviation Act 2006 prohibit and void contracts or arrangements that restrain competition in the civil aviation sector such as discriminatory terms and conditions, tying arrangements, direct or indirect price fixing, market division, limiting development, investment in the aviation sector, etc.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

The NOTAP Act prohibits the following:

- any term in an agreement that empowers the transferor (or licensor) to interfere directly or indirectly in the administration of the technology by the transferee (or licensee) when the Director of NOTAP is of the opinion that such interference is unnecessary for the implementation or due execution of such contracts;
- any grant-back clause of patent rights, trademarks, technical information, innovations or improvements obtained by the licensee, especially when it is effected without consideration or any assistance from the licensor;
- technology transfer that exceeds a 10-year period or other unreasonable term of the agreement;
- exclusivity, as it concerns restrictions that are arguably unjustifiable in protecting the licensor or are out rightly prohibited by various provisions in NOTAP Act; and
- an obligation on the licensee to sell the products manufactured by it to the supplier of the technology concerned or any other source designated by the transferor.

With respect to the Patents and Designs Act, it is pertinent to note that the Nigerian government can exercise its right of compulsory

acquisition over any patent or design if the owner of a patent fails to grant licences for such patents on reasonable terms and conditions in a manner that stifles trade and economic development.

The regulations made by the Nigerian Local Content Development Board also prohibit the provision of grant-back clauses in contracts.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

No, the Nigerian courts have not held use of intellectual property rights to be anticompetitive, as there is presently no anticompetition law in Nigeria.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are commonly used in Nigeria and are enforceable. Insurance coverage is also available for a foreign licensor in support of an indemnification provision as this is one of the regular and routine services carried out by insurance companies in Nigeria. The general principles of contract as established in English law and judicial precedents laid down by Nigerian courts will apply. Based on the principle of freedom of contract, parties are allowed to negotiate terms of contract freely as long as the court does not believe the terms of the contract to be unconscionable or that it is likely that one of the parties in a contract has a superior bargaining power to the other. However, vitiating elements of a contract such as duress, undue influence, mistake or misrepresentation should be totally avoided in order for the indemnification clause to be valid. Hence, as long as the terms of the indemnification is not unconscionable or derived as a result of superior bargaining power of the licensor, the indemnification clause will be valid for the protection of the foreign licensor.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Parties are allowed to waive or limit certain types of damages as parties can waive contractual rights. While clauses that exempt liability are enforceable, it has been decided several times by Nigerian courts that exemption clauses may not avail a party to a contract guilty of a fundamental breach of the contract or in instances of negligence.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

A licensor-licensee relationship may be terminated by operation of the law where a technology transfer agreement or software licensing involves a patent that has expired after registration in Nigeria, and renewal is not possible because such patent is not renewable or has fallen into the public domain. In this situation, the Patent and Designs Act allows the patentee to apply to the Registrar to cancel the patent if such licence has been granted in favour of such patent subject to the consent of the licensee of such patent, payment of annual fee or outstanding fee for the period that the patent is originally supposed to last in either of the scenarios mentioned above.

Generally, the courts in Nigeria refrain from inputting terms or importing meanings into a contract other than what is expressly contained in such contract, provided the terms of the contract do not violate extant Nigerian laws and do not offend public policy as well as established principles governing such contract under common law. The courts in Nigeria will rarely introduce commercial agency laws in licensee relationships if the laws mentioned above, which essentially

govern various forms of licensing relationships, do not cover the field on the subject matter.

The relationship of a licensor-licensee is determined mainly on the terms of the contract between the parties. The responsibility of excluding such terms falls on the shoulder of the solicitors to the licensor to ensure that such terms are completely excluded and state specifically in the contract the mode of termination, events that will necessitate termination, the indemnity or whatsoever form of compensation that will be available in the case of termination or if compensation will not be available and conditions for renewal.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

The general rule is that a sub-licence would derive its validity from the original licence agreement. A sub-licence agreement will therefore be terminated upon the expiration or termination of the original licence agreement. The sub- licensee may, however, approach the court for redress against the sub-licensor. Where there is any contractual provision to the contrary, the courts will honour the agreements of the parties (ie, the licensor, licensee and sub- licensee) and enforce same as far as there are no vitiating elements.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

Once a person is adjudged to be a bankrupt, he or she is absolved of every debt he or she possesses but that does not absolve him or her of his or her obligations under a contract except to the extent he or she may be unable to fulfil his or her contractual obligation as a result of his or her bankruptcy. Thus, both the licence and sub-licence agreement will still be valid. No provision of the law in Nigeria directly empowers the licensor to terminate its contract with the licensee; neither is he or she prevented from terminating it since this is basically contractual. Consequently, the licensor is at liberty to negotiate with the licensee before he or she is adjudged bankrupt to remove the latter and restructure its international agreement in order to limit his or her exposure, which may arise as a result of the licensee's bankruptcy, as much as possible.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

There are no restrictions on an international licensing agreement governed by the law of another jurisdiction chosen by the parties.

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

The Nigerian law recognises parties' right to agree to have their contractual disputes determined by arbitration provided the subject matter of the dispute is arbitrable under the law. There is also no restriction as to the place of conduct of international arbitration proceedings, if parties so agree. Parties may agree to preclude collective arbitration. An agreement to preclude collective arbitration would be enforceable on the basis of a lack of consent, as consent is a fundamental precondition for arbitration.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

Foreign arbitral awards are enforceable in Nigeria and Nigeria is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. In fact, the same has been domesticated in Nigeria and, as such, forms part of the laws in force.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Yes, injunctive relief is available to parties in Nigeria. A party may not waive its right to seek injunctive relief. A party may, however, waive its entitlement to claim specific categories of damages in an arbitration clause.



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Overview

- 1 Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?

There are no restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office in Poland.

As far as restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor are concerned, it should be pointed out that there are no such restrictions with regard to foreign persons that originate from the European Economic Area (EU countries and EFTA countries). Other foreign natural persons that fulfil specific requirements regarding, generally speaking, the status of their residence in Poland are allowed to pursue economic activity in Poland under the same conditions that apply to Polish natural persons. Whereas other foreign legal persons (ie, entities outside the European Economic Area) may undertake business activity in Poland only in the form of a limited partnership, a limited joint-stock partnership, a limited company or a joint-stock company. International agreements may provide otherwise.

Kinds of licences

- 2 Identify the different forms of licence arrangements that exist in your jurisdiction.

Under Polish law, only patent, trademark, utility design, industrial design, topographies of integrated circuits and copyright licence agreements are explicitly regulated. However, there is no legal definition of the aforementioned agreements. The Industrial Property Act, with reference to patents, designs and topographies, also recognises an open licence, a compulsory licence and an implied licence.

Other types of licence agreements are allowed according to the principal of contractual freedom recognised by the Polish Civil code.

Law affecting international licensing

- 3 Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.

There is no specific legislation governing an international licensing relationship.

- 4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

There are no registering requirements applicable only to the grant of international licensing. The scope of disclosure made before the licence agreement is concluded depends entirely on the parties.

- 5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

There are some general rules that apply to all contractual obligations. First of all, these would be provisions referring to the scope of the previously mentioned principle of contractual freedom that stipulate that the parties may arrange their legal relationship according to their will, provided that its content and aim is not contrary to its nature, law or the principles of community life. Further, Polish law stipulates that each obligation should be fulfilled according to its nature, social and economic aim, the principles of community life and adopted customs, if such exist in the relevant field. The *rebus sic stantibus* clause shall also apply to contractual obligations owing to which, in specific circumstances, the court may modify an obligation or even declare the agreement terminated. Moreover, there are provisions against any perpetual obligations according to which any obligation with an undefined term, which is of a continuous character, may be terminated by any of the parties with contractual, legal or customary notice or with immediate effect in the case of a lack of any of such notice. Additionally, to each civil relationship, a general clause of abuse of rights would apply. The aforementioned clause states that no one may use one's rights in a manner contrary to their social and economic aim or the principles of community life. Such use should be deemed an abuse of rights not deserving protection.

- 6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

A franchise agreement is not explicitly regulated by Polish law. Such agreements are acceptable according to the freedom of contract principle. Any franchise agreement would normally contain several provisions typical for a licence agreement.

Intellectual property issues

- 7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

The Republic of Poland is party to all of the above.

- 8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

Yes, the licensee may take on such obligation. Nonetheless, it will have only an inter partes effect, which means that a possible motion for invalidation of the licensed right filed by the licensee would still be acceptable independently of the licensee's contractual liability towards the licensor. Moreover, in certain circumstances, such provisions may be invalid as being contrary to the antitrust law.

- 9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?**

The licence shall terminate at the latest with the lapse of the licensed right. The parties, however, are free to provide for a longer duration of the contract in respect to provisions other than those governing the licence and, in particular, those involving payable services of the licensor necessary for the purpose of exploiting the invention. Once the licence terminates, the licensee may freely compete with the licensor, provided that the licence agreement does not contain provisions to the contrary. In the case of a trademark licence, the provisions of the Act on Combating Unfair Competition may allow the licensor to prohibit the former licensee (and any other person) using the lapsed trademark.

- 10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?**

There is no such additional requirement.

- 11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?**

Yes, an unregistered right may also be licensed. To such licences, provisions regulating patents, trademarks, etc, would apply.

- 12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?**

In the case of industrial property rights, any licence contract should be executed in writing, otherwise it will be rendered null and void. Such a requirement also applies to a copyright licence agreement if the licence is exclusive. Any licence on industrial property rights (there is no copyright register in Poland) may be registered with the Polish Patent Office. Nonetheless, such registration is not necessary in order for the licence to be opposable by third parties. Since the transfer agreement of intellectual property rights needs to be done in writing, the agreements, pursuant to which the aforementioned rights are granted, shall also be required in written form. Moreover, in the case of a registered pledge over intellectual property rights, such a pledge must be registered with the Register of Pledges, and, in the case of industrial property rights, additionally with the Polish Patent Office.

- 13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?**

The owner of intellectual property rights may always initiate infringement proceedings on his or her own. Any exclusive licensee of copyrights may institute infringement proceedings, provided that the licence agreement does not stipulate otherwise. Also, the holder of an exclusive licence on industrial property rights recorded with the Polish Patent Office may enforce his or her claims in the event of infringement, unless the licence contract stipulates otherwise.

- 14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?**

A licensee may grant a sub-licence for the use of the trademark within the scope of the authorisation granted to him or her. Such rights exist statutorily. However, the licensee may validly waive its right to sub-licence.

- 15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?**

In Poland, a 'first to file' rule applies. An invention subject to a patent application may be licensed before the patent is granted.

- 16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?**

Polish law does not allow for patenting of software or business processes or methods. As far as living organisms are concerned, Polish law provides that the following, in particular, shall be considered as biological inventions eligible for patent protection:

- inventions, the subject of which is biological material that is isolated from its natural environment or produced by means of a technical process, even if it previously occurred in nature;
- elements isolated from the human body or otherwise produced by means of a technical process, including the sequence or partial sequence of a gene, even if the structure of that element is identical to that of a natural element; and
- inventions that concern plants or animals, if the technical feasibility of the invention is not confined to a particular plant or animal variety.

At the same time, the Industrial Property Law provides that the human body, at the various stages of its formation and development, and the simple discovery of one of its elements, including the sequence or partial sequence of a gene, cannot constitute a patentable invention. The following, in particular, shall be considered as biotechnological inventions, whose exploitation would be contrary to public order or with public morality:

- processes for cloning human beings;
- processes for modifying the germ line genetic identity of human beings;
- uses of human embryos for industrial or commercial purposes; and
- processes for modifying the genetic identity of animals, which are likely to cause them suffering without any substantial medical benefit to man or animal, as well as animals resulting from such processes.

- 17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?**

Know-how is mentioned in a few tax regulations, however, the definitions provided therein are only for tax purposes and do not influence know-how protection in any manner. In consequence, one may seek protection for know-how only based on the Act on Combating Unfair Competition, which offers protection for trade secrets, that is, information that has not been disclosed to the public, concerning technical, technological or organisational issues, as well as any other information of economic value, in regard to which the entrepreneur has taken necessary actions to keeping it confidential.

- 18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?**

The licensor may prohibit the licensee the use or disclosure of the licensor's trade secrets both during and after the term of the licence. Whether such restrictions apply to improvements the licensee has contributed to depends on the kind of improvements and their link with the original trade secret. The looser the link between the improvement and the improved technology, process, etc, the less justified it would seem for the licensor to prevent the licensee from using the improvement.

- 19 What constitutes copyright in your jurisdiction and how can it be protected?**

According to the Polish Act on Copyrights and Related Rights, any manifestation of creative activity of an individual nature, established in

any form, irrespective of its value, designation or manner of expression, shall constitute the subject matter of copyright.

There is no register for copyrights.

Copyrights may be protected via civil action brought before a civil court. Some types of copyright infringement also constitute a criminal offence.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

If the licensor wishes to use the improvements, it is advisable for him or her to obtain a grant-back licence, otherwise, the licensor may be exposed to allegations of copyright infringement.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Perpetual software licences are valid. However, any licence with an undefined term may be terminated by any of the parties with a one-year notice. Moreover, any licence concluded for more than five years may be terminated with one year's notice after the first five years have passed.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

No, there are no such requirements. Neither import or export restrictions apply.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

In general, any creative improvement or modification belongs to the party creating it. The licensor's obligation to provide upgrades and new releases should derive from the agreement directly or by implication. Otherwise, the licensee will not be able to claim. On the other hand, the licensor's obligation to provide bug fixes may result from specific provisions of the Copyright and Neighbouring Rights Act or from general provisions on the contractual liability contained in the Civil Code.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

It is acceptable for the licensor to include such process or routine. Nonetheless, any process or routine implemented by the licensor should not result in destroying the licensee's data or prevent the licensee from using the software in an authorised manner.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

There is no legal case in this regard, but one would expect that the nature of software will be taken into account at the time of determining the licensor's liability.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

There are no specific legal restrictions with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device. However, any regulations in a licensee agreement that enables such actions, should be in compliance with general rules (eg, may not infringe consumers' rights).

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

There is no legal case in this regard. One could expect that the enforceability and applicability of public licences will not be restricted.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

As a principle, the nature, amount, manner or frequency of payments of royalties or other fees or costs can be freely determined by the parties. No regulatory approval is required.

According to the Act on Copyrights and Related Rights, if the contract does not indicate whether the granting of a licence was free of charge, the author shall have the right to remuneration. If the contract does not specify the author's remuneration, such remuneration shall be set, taking into account the scope of the right granted and the benefits resulting from the use of the work. Moreover, in the event of gross discrepancy between the remuneration of the author and the benefits of the licensee, the author may request the court for a due increase of his or her remuneration.

Where the parties fail to agree on the interest rate for late payments, the statutory interest rate applies.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

Payments related to the economic activity conducted by entrepreneurs must be made or received via the entrepreneur's bank account if another entrepreneur is party to the transaction and the one-off value of the transaction, regardless of the number of resulting payments, exceeds the equivalent of €15,000 converted into zlotys based on the average foreign currency exchange rate set by the National Bank of Poland.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

The foreign licensor may be taxed only on the income generated in or from Polish jurisdiction. Double taxation may be avoided or reduced by tax credits by the double taxation treaty.

Polish licensees may be obliged to withhold tax on royalties or fees for the use of IPR to be made to a foreign licensor. The rate of withholding tax is 20 per cent.

Exemption from taxation shall apply if capital relations exist between the licensor and the licensee.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

A court judgment can be rendered in a foreign currency.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Yes. Practices that potentially restrict trade are, in general, prohibited in our jurisdiction, being subject to further requirements only. Such practices are regulated by the Act on Competition and Consumer Protection, where, for example, the following practices are prohibited:

- fixing, directly or indirectly, prices and other trading conditions;
- limiting or controlling production or sale, as well as technical development or investments;
- sharing markets of sale or purchase;

- applying to equivalent transactions with third parties onerous or non-homogenous agreement terms and conditions, thus creating for these parties diversified conditions of competition;
- making the conclusion of an agreement subject to acceptance or fulfilment by the other party of another performance, having neither a substantial nor customary relation with the subject of such agreement;
- limiting access to the market or eliminating from the market undertakings that are not parties to the agreement; and
- collusion between undertakings entering a tender, or by those undertakings and the undertaking being the tender organiser, of the terms and conditions of bids to be proposed, particularly as regards the scope of works and the price.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

The provisions of the Act on Competition and Consumer Protection should be taken into consideration by assessing the validity of the provision in a licence agreement.

No specific restrictions exist concerning the duration or territory of a licence.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

According to Polish courts, certain uses of intellectual property rights may be considered as anticompetitive, for example, by arduous conditions imposed in a licence agreement by an entity of dominant position.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are often used and are generally enforceable. Insurance coverage for the protection of a foreign licensor is available in support of an indemnification provision.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

The parties can contractually agree to waive or limit certain types of damages. Disclaimers of liability are generally enforceable. Null and void is a provision, according to which a party shall not be liable for damage caused intentionally.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

Polish law does not limit the rights of parties to terminate or not renew an international licensing relationship. It is also the parties' decision whether to request the payment of an indemnity or other form of compensation upon termination or non-renewal.

Only in exceptional cases does the law limit these rights, for example, insolvency law. See question 39.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

A sub-licence always follows the legal destiny of the principal licence. As a result, in the absence of any contractual provision, if a licence agreement terminates or expires, a sub-licence will also cease to exist. A contractual provision may provide that in case of the termination or expiration of a licence agreement, a sub-licence transforms into a licence agreement.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

Clauses providing for termination or change of a licence agreement upon commencement of an insolvency proceeding are void.

If the licensee becomes insolvent, the licence agreement, as well as any sub-licences, remain in full force. An insolvency administrator has the right to choose whether the licence agreement shall be performed further. In order to avoid problems with insolvency proceedings, the licensor shall make the termination of the agreement contingent upon non-payment of royalties on time.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

An international licensing arrangement may be governed by the law chosen by the parties. However, where all other elements relevant to the situation at the time of the choice are located in Poland, the choice of



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the parties shall not prejudice the application of provisions of Polish law that cannot be derogated from by agreement, for example, a requirement that the licence contract shall be in writing on pain of invalidity.

- 41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.**

The parties may agree to arbitration of their disputes instead of resorting to the courts of their jurisdiction. The arbitration proceedings may be conducted in other jurisdictions. The parties are free to set the scope of an arbitration clause. However, it should be pointed out that in B2C contracts a contract clause may be considered as an unfair contractual term if this clause has not been individually negotiated with the consumer.

- 42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?**

Court judgments and arbitral awards from another jurisdiction are enforceable in Poland, provided that specific requirements are fulfilled, for example, if such recognition conflicts with Polish public policy or the case belongs to the exclusive jurisdiction of the Polish courts.

Judgments from other jurisdictions issued in civil cases are recognised in Poland by force of law.

The judgments issued in European Union countries and that are certified with a European execution title are enforceable in Poland upon providing the enforcement clause.

Poland has been party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards since 1961.

- 43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?**

Injunctive relief is available in Poland. The parties may not waive the right to injunctive relief.

The parties may specify the extent of the arbitration clause and stipulate that particular categories of damages shall not be subject to arbitration.

Russia

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Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

There are no restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor in Russia from the intellectual property perspective. Neither are there any restrictions against a foreign licensor entering into an intellectual property licence agreement without establishing a subsidiary or branch office in this jurisdiction. A foreign business entity is free to license its intellectual property subject matter directly or indirectly to the Russian business entity, or create a joint venture with a Russian partner using the appropriate international licensing scheme.

Before a foreign licensor can establish a business entity or joint venture in Russia, it has to undergo the following general tests from a legal perspective: investment, corporate, commercial tax and antimonopoly.

Each particular test may (or may not) require special filing or licence (permission), a regulatory review process or registration, depending on its specificity or nature, as well as the applicable legal requirements.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

In Russia, a licence arrangement will be regarded as one of the contractual forms of intellectual property disposal. As a matter of fact, a licence is a valid permission of the rights holder for the use of its intellectual property by a third party (user). According to article 1235(1) of the Russian Civil Code, under the licence agreement one party – the owner of exclusive rights to the result of intellectual activity or to means of identification (licensor) – grants or agrees to grant to another party (licensee) the right to use such result or such means within the scope of the agreement.

The scope of an intellectual property licence agreement will depend on the factual circumstances of the deal, commercial opportunities and needs of the contractual parties as well as the effect of the parties' negotiations. However, as a general rule, the licensee will be able to use the licensed intellectual property only within the limits as permitted by the licensor. In other words, the licensee will not have the legal right to use the licensed brand, technology or software in a particular way or manner that has not been specifically authorised by the licensor and clearly defined in the relevant contract.

The intellectual property licence agreement may be exclusive or non-exclusive. If the licence agreement is exclusive, the licensor will be deprived of granting the other exclusive or non-exclusive licences in favour of third parties within the same territory and scope of permitted use of the licensed intellectual property. Moreover, in the event of the exclusive licence, the licensor will not be able to use the licensed intellectual property within the same territory and by the same means, unless there is an agreement to the contrary. If the licence agreement is non-exclusive, the licensor will be free to grant other non-exclusive

licences in favour of third parties within or outside of the same territory and scope of permitted use of the licensed intellectual property, and will be free to use the licensed intellectual property within or without the same territory and the same means.

Indeed, different types of licence arrangements are legally recognised and generally used in Russia. They may be individually outlined as follows:

- copyright and design licences;
- software and database licences;
- patent and know-how licences;
- trademark and service mark licences;
- plant variety and breeder's right licences;
- mask work licences; and
- others.

In addition, various licensing models are often applied in mergers and acquisitions and joint ventures, franchising and distribution, advertising and sponsorship, information technology (IT) and outsourcing, and other corporate or commercial transactions.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Russian legislation does not specifically govern the creation or otherwise regulate the terms of an international licensing relationship. At the same time, the creation as well as the terms of the international licensing contract shall basically:

- not be in conflict with the Russian national law;
- assume the Russian licensing imperatives (as applicable); and
- respect the Russian public policy.

In connection with this, the contractual parties will be free to set up a licensing contract by inserting certain terms and conditions effective under the international licensing practice, provided that the same do not run afoul of the Russian law, including on royalty rates and on the duration of the contractual term.

For the purpose of taxation, the Russian Tax Code protects the general principle of determination of market product prices in the course of different transactions, including cross-border ones. And, the national tax authorities reserve the right to check the relevant transactions for the accuracy of price application: When the applied prices used by the contractual parties substantially deviate from those market prices, the Russian tax agency may decide on surcharging the taxes and setting penalties.

Regarding the duration of the contractual term, the common rule will be as follows: the term of the licence agreement may not go beyond the term of protection of the licensed intellectual property; in the event of termination of legal protection of the licensed intellectual property the licence agreement will terminate. Hence, before entering into the licence agreement it would be wise to identify the term of protection (registration) of the licensed subject matter. Where the licence agreement is silent on its term, or where the term of licence is not fixed in the contract, the licence will be effective for five years. This rule will be applied even if the licence agreement is governed by a foreign law.

4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

In Russia, the licensor should not make any pre-contractual disclosure formalities to the prospective licensee as the law would not just oblige the licensor to do so. Under the concept of 'good faith', which is valid under the Russian civil law and used in the national legal doctrine, fair and reasonable dealings of the subjects of law will be presumed. At the same time, Russian law protects the legal requirement of mandatory registration of licence transactions that mainly concern the grants of certain licensing rights to the registrable intellectual property (ie, patents, industrial designs, trademarks, service marks, etc), regardless of whether the licence grants are national or international in their pure legal sense and regardless of whether the licence agreements are governed by national or foreign law. Hence, if the subject matter of the international licence agreement is a trademarked brand, a patented technology, a registered mask work or another registered intellectual property asset, such licence will be subject to compulsory registration. Registration of the licence transaction (with respect to the registered intellectual property) will be a condition for completeness, validity and enforceability of such transaction. In contrast, a non-registered licence transaction in relation to the registered intellectual property will be incomplete and generally unenforceable against third parties. Importantly, there is no obligatory deadline within which the licence transaction must be registered in order to be completed.

5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

The concepts of 'good faith', 'fair dealing' and 'reasonable action' are the basic principles of Russian civil law. These fundamental principles are supported and enforced by the Russian courts in disputes involving national and international parties. The licensing relationship, whether national or international, is not an exception.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Russian law distinguishes between licences and franchises and recognises both such contractual tools. The main difference between these agreements is that the franchise agreement will always contemplate the grant of a licence for a set of intellectual property rights (system), including necessarily the right to use the franchisor's trademark or trademarks, whereas the licence agreement will grant the exclusive or non-exclusive right to a licensee for the use of one or several intellectual property object or objects. While, in addition to the franchised system, the contracted franchisee will also be able to use the commercial experience and goodwill of the franchisor under the franchise agreement, the licence agreement will not normally grant the same benefits to the contracted licensee. Another basic difference between licensing and franchising in Russia is that in the latter case both the franchisor and the franchisee must stand as the duly registered commercial organisations or individual entrepreneurs; the licence agreement can be entered into by and between the referenced legal persons as well as by and between non-commercial organisations. The last principal difference would be the onerous nature of the franchise agreement; the licence agreement may be royalty-bearing or royalty-free. In general, the franchise arrangement will be usually regarded as a complex business intellectual property licence in Russia.

Russian law sets forth that the licensing legal principles may be applied to a franchise relationship, unless such application contradicts the franchising legal principles and the essence of the franchise agreement. The issue on whether the franchising legal principles may be conversely applied to a licence relationship is rather controversial.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS)?

Yes, Russia is a party to these treaties. In fact, Russia is a party to many other intellectual-property-related conventions and agreements, including:

- the WIPO Copyright Treaty;
- the Berne Convention for the Protection of Literary and Artistic Works;
- the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations;
- the Locarno Agreement Establishing an International Classification for Industrial Designs;
- the Patent Law Treaty (PLT);
- the Strasbourg Agreement Concerning the International Patent Classification;
- the Madrid Agreement Concerning the International Registration of Marks (the Madrid Agreement);
- the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (the Madrid Protocol);
- the Trademark Law Treaty (TLT); and
- the Singapore Treaty on the Law of Trademarks.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

The licensee can be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in Russia. The 'no-challenge clause' is not prohibited by Russian law and is, therefore, usually applied in the Russian licensing practice. And, the licensee's action to the contrary may be considered as a breach of contract, or even abuse of rights, that may be remedied eventually by the licensor. At the same time, Russian law gives anyone certain freedom for challenging the intellectual property protection – hence allowing any third party to do so. As a result, many practitioners will argue that the licensee may not be estopped by contract from such legal 'right to challenge', even in the event of contractual existence of the 'no-challenge clause' in the licence agreement, assuming the 'no-challenge clauses' are unenforceable. At any rate, the court should take into account all circumstances surrounding such an action (if brought) and render the judgment on the basis of the civil law concepts of 'good faith' and 'fair dealing' (see question 5).

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

In Russia, the invalidity or expiry of registration of an intellectual property right on a related licence agreement leads to automatic termination of the licence agreement. This fact is specifically confirmed by Russian law and relevant court practice. According to the common rule, the licence agreement based on patent or trademark rights, which are subsequently held invalid, shall be terminated immediately (ie, from the date of issuance of the respective decision on the invalidity of the contracted patent or trademark). And, in this regard, the licensee's claims on the refunding of licence fees – for the period preceding the patent or trademark invalidation – shall be simply dismissed by the court. Similarly, the licensor's claims on the recovery of non-settled licensed fees – for the period preceding the patent or trademark invalidation – will not be satisfied by the court.

When the licence agreement does not remain in effect, the royalties cannot be levied by the licensor, and the licensee may then start to compete, using different intellectual property assets. Generally, the use of the licensed intellectual property subject matter upon expiration or termination of the licence agreement shall be regarded as infringement (article 1237(3) of the Russian Civil Code).

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

There are no such requirements set forth to foreigners in Russia. Any foreign investor (legal entity or individual – as applicable) can register its intellectual property in this jurisdiction without having an original intellectual property registration or evidence of use in the jurisdiction of origin. At the same time, in order to be able to license certain intellectual property in Russia its owner has to register the intellectual property object in this jurisdiction first. For instance, this rule may be applied to trademarks and patents.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Unregistered marks, unless such marks have obtained a special well-known status within the meaning of Russian law, may not be licensed in Russia. In other words, pending national or international marks, as well as regular trademark applications, may not be the subject matter of licence transaction in this jurisdiction. However, if the unregistered mark is officially recognised as a well-known trademark in Russia, it may be licensed in favour of a third party without fail and without trademark registration as an imperative prerequisite. As to other intellectual property rights, which are not subject to registration for the purpose of protection in Russia, such as copyrights and related rights, software and databases, know-how and others, the same may be freely licensed, and the relevant licence transactions do not need to be registered.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

As a general rule, an intellectual property licence must be in writing. In other words, it has to represent a written executed instrument (agreement) that clearly shows the will of the contracting parties towards the subject matter of a particular transaction and contains the material terms required by law depending on the nature of the transaction. In addition, in order to be complete, valid and enforceable an intellectual property licence – made against the registrable objects (eg, trademarks, patents) – must be registered with the competent state authority (see question 4). The described legal requirements on the written form of a contract and its state registration will also be applicable to the security interests granted over the intellectual property rights in Russia.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

A foreign owner or licensor of intellectual property can institute enforcement proceedings against a third party for infringement in Russia without joining the licensee as a party to the proceedings. An exclusive intellectual property licensee may institute the enforcement proceedings against a third-party infringer only where its relevant contractual rights are affected. It is not possible for the intellectual property owner to contractually prohibit the exclusive licensee from doing so, as it is the legal right provided by law, but it is possible for the owner to join the enforcement proceedings as a party. A non-exclusive intellectual property licensee does not have the legal right to commence the infringement proceedings; however, it may be authorised under the owner's power of attorney to act on behalf of the latter against a third-party infringer.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

A trademark or service mark licensee can sub-license the use of the mark to a third party only under the consent of the trademark or service mark owner (licensor). Such consent must be in writing and may be given expressly in the licence agreement. Otherwise, such written consent may be granted separately by the licensor before the implementation of the sub-licence agreement. If the licence agreement is silent on the issue of sub-licensing, and no separate written consent of the licensor has been granted, the licensee will not be entitled to sub-license the use of the trademark or service mark, or other intellectual property subject matter in Russia.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Russia is a 'first to file' jurisdiction. The intellectual property registration will be granted on a 'first come, first served' basis.

With regard to patents, if there is no patent registration in Russia, its owner will not be able to license the use of its invention in favour of a third party. Only Russia-registered and Russia-granted patents may be licensed in this jurisdiction. Pending patents or patent applications cannot be licensed in Russia.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

According to article 1350(5.5) of the Russian Civil Code, software (computer programs) are regarded as non-patentable objects. As a general rule, the subject matter of invention that does not have the technical character is not patentable in Russia. Software (computer programs) 'as such' are regarded as subject matters that do not have the technical character, hence software cannot be patented in this jurisdiction. At the same time, a patent may be granted to a new, inventive and industrially applicable software products in conjunction with hardware computer elements. The local practice affirms this fact so far.

On a separate note, software (computer programs) are protected as literary works by operation of copyright law. During the whole period of software protection, its owner has the optional right to apply for registration of its computer program with the competent state authority. Software registration is not a prerequisite for its legal protection in Russia, but it may serve as an additional (documentary) evidence of intellectual property creation, validity and ownership. In addition, software registration may have an advantageous effect in the course of enforcement proceedings.

According to article 1350(5.4) of the Russian Civil Code, rules and methods for doing business are not considered as inventions. Hence, business processes or methods are not patentable in Russia.

Living organisms may be patented in Russia, provided that they meet general patentability criteria. At the same time, there are certain exceptions. Pursuant to article 1349(4) of the Russian Civil Code, the following shall not be regarded as patented objects:

- methods of cloning human beings;
- methods of modifying the genetic integrity of human germline cells; and
- use of embryos for industrial and commercial purposes.

In addition, plant varieties, animal breeds and biological methods of obtaining them, with the exception of microbiological methods and products obtained through the use of such methods, are also regarded as non-patentable inventions. Nevertheless, plant varieties and animal breeds are regarded as 'achievements of selection' that may be protected as intellectual property objects under a special legal regime in Russia.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

There is specific legislation that governs trade secrets and know-how in Russia. While trade secrets are governed by the Russian Federal Law on Trade Secrets (No. 98-FZ dated 29 July 2004 – as amended), know-how (also known as ‘secrets of production’) is regulated by the Russian Civil Code (chapter 75). In particular, ‘trade secret’ is defined by law as the regime of confidentiality of information allowing its owner, under the existing or potential circumstances, to increase profits, to avoid unnecessary expenses, to preserve the market standing of the goods, works and services, or to receive other commercial benefits (article 3(1) of the referenced Law on Trade Secrets). Know-how is regarded as information of any kind (industrial, technical, economical, organisational and other) related to the results of intellectual activities in the sphere of science and technology, and information on the means of performance of professional activities that has actual or potential commercial value by virtue of being unknown to third parties, to which third parties have no legitimate access under lawful grounds, and with regard to which, the owner has undertaken reasonable measures to protect the confidentiality of such information, including by implementing the trade secrets regime (article 1465 of the Russian Civil Code). Hence, trade secrets (or the ‘trade secrets regime’) may be the cornerstone of know-how, which is protected as individual intellectual property subject matter in Russia.

The Russian courts traditionally and regularly enforce the intellectual property rights vested in know-how in the event the ‘trade secrets regime’ has been implemented by its owner in due course. Basically, the owner of confidential information must take the following reasonable measures so that such information may acquire know-how protection:

- to identify the list of information containing trade secrets;
- to limit the access to the information containing trade secrets by establishing the appropriate procedure for dealings with the same and by exercising control for compliance over such procedure;
- to keep records of persons who have legitimate access to the information containing trade secrets as well as persons to whom such information has been transferred to;
- to regulate the relationship in connection with the use of information containing trade secrets by employees (under labour or employment contracts), or by contractors (under civil law contracts); and
- to record the information containing trade secrets on any material object or tangible medium (document, paper, disc, etc) and affix the notice ‘trade secret’ along with the indication of the owner’s details.

If the owner of confidential information ultimately fails to take the above-mentioned measures, the owner of confidential information may undertake other measures that it considers as reasonable or appropriate to acquire rights in know-how. As a result, the owner is entitled to implement the trade secrets regime or other reasonable measures (as applicable) to receive know-how protection for its confidential information.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

According to article 1469(3) of the Russian Civil Code, the licensee under the know-how licence agreement shall be obliged to preserve the confidentiality of the licensed know-how up until the termination of effect of the licensor’s exclusive rights to such intellectual property. In other words, in addition to the contractual restriction of disclosure of the licensed confidential information (know-how), the licensor will be automatically (by operation of law) protected, whether during or after the term of the licence agreement. As to the use of trade secrets and know-how by the licensee (or third parties), the same must be clearly and properly regulated under the relevant contract. On the issue of improvements to which the licensee may have contributed to, the parties’ agreement shall basically regulate the parties’ respective rights to the same. If the licensee becomes the valid owner of improvements over the licensed know-how, the licensor will not be able to interfere

in the licensee’s relationship with third parties, but it will usually obtain the grant-back licence in order to be able to use such improvements in its business (if necessary).

19 What constitutes copyright in your jurisdiction and how can it be protected?

Copyright subsists in scientific, literary and artistic works fixed in any tangible medium of expression, regardless of benefits, purposes as well as methods of their expression. To be copyrightable, a work of authorship shall satisfy two fundamental requirements. It must be creative (ie, made as a result of the author’s creative activity) and embodied in any material form (ie, fixed in any tangible medium of expression).

According to article 1259(1) of the Russian Civil Code, the following examples of works of authorship can obtain copyright protection:

- literary works;
- dramatic works;
- musical works;
- choreographic works and pantomimes;
- audiovisual works;
- sculptural, graphic and design works;
- architectural works;
- pictorial works; and
- computer programs.

Also, copyright law protects compilations (including databases) and derivative works (including translations).

Essentially, copyright vests in a work of authorship from the moment of its creation. There is no need to register or comply with any other formalities to acquire, exercise, transact, license, protect or enforce copyright in Russia.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

It is advisable to require the contractual assignment of copyright by the licensee to the licensor for any artworks, software improvements and other copyrightable works that the licensee may have contributed to in the course of a licensing relationship. Otherwise, it is possible to obtain a grant-back licence to the use of the same, if the licensee becomes the valid owner of such objects.

Software licensing

21 Does the law in your jurisdiction recognise the validity of ‘perpetual’ software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to ‘perpetual’ licences?

Yes, Russian law recognises the validity of ‘perpetual’ software licences. In other words, the term of the software licence may be conditioned by the term of protection of the licensed software. And, in the event of termination or expiration of relevant software protection, the underlying licence agreement will lapse automatically. If the licence agreement is silent on its term, the software licence will be effective within five years starting from the signing date.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

In general, there are no legal requirements, except for the execution and delivery of the software licence agreement, to be complied with prior to granting software licences in Russia. The legal restrictions may be applied only to the imports and exports of certain encrypted software tools or equipment. Indeed, if the licensed software contains encryption, as it is defined by Russian law and regulations, an official licence must be obtained or notification must be made in due course, prior to the import or export of the same.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensee bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

In Russia, the 'improvement and modification right', which generally leads to creation of a new (derivative) work, may be either authorised (permitted), or not authorised (prohibited) by the licensor within the scope of the software licence agreement. If the licensee is authorised to make software improvements or modifications under the licence agreement, the ownership to such improvements or modifications shall belong to the licensee. And, the parties are generally free to agree upon the assignment or grant-back licence of the developed software improvements or modifications on certain preferential terms and conditions.

By virtue of Russian law, the 'adaptation right' (ie, software modification for the purposes of its functioning on the specific user's hardware or under management of specific user's software) as well as the 'right to correction of obvious errors' shall automatically vest with the duly authorised licensee, unless the agreement between the latter and licensor (owner) provides otherwise. Therefore, a software licensee is entitled to adapt or correct the licensed software by operation of law (ie, in the absence of contractual provision and explicit prohibition to that effect), provided that such licensee's activities do not unreasonably damage the legal software use and unfairly infringe upon the owner's interests in the licensed software.

As to the issues of bug fixes, upgrades and new releases from the licensor, the same are usually regulated under special provisions of the software licence agreements or relevant maintenance (support and service) contracts. The law is tacit with regard to these issues.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

Technical means of copyright protection, including the technologies that basically control the access to the copyrighted software, are allowed in Russia. Such means may only restrict the activities of the counterparty or licensee that have not been directly contracted. Hence, a software licensor may include a technical process or routine in the licensed software in order to disable or erase automatically any unauthorised use or access to the licensed software, should the same damage or infringe upon the licensor's rights vested in its intellectual property. At the same time, development, use and distribution of 'scum-ware' or malicious software programs, which are intended for unauthorised destruction or blockage of computer data, are prohibited by the Russian Criminal Code (article 273). As a result, such activities may lead to certain negative consequences (criminal sanctions), including imprisonment.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

There is no Russian court practice yet that would recognise that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software. Nor does Russian law require that all licensed software must be free from any errors. Therefore, the contracted licensor may be held liable if the errors in the licensed software have injured the contracted licensee or eventually resulted in certain damages incurred by the latter. Such damages must be duly proved by the licensee during the court action. Otherwise, the damages will not be awarded to the licensee.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

No, there are no such specific restrictions in place. However, if the user or its devices are somehow damaged, and he or she is able to prove it, the licensor may be held liable for its malicious intent and unfair behaviour, at least from the civil law perspective. In practice, the liability for such activities is prescribed by software licence agreements.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

The Russian courts have not restricted in any manner the enforceability or applicability of public licences for open source software. Various 'public' licence arrangements, including GNU, Apache, Linux and Mozilla, are operating in Russia. Moreover, the recent civil law amendments have effectuated the validity of 'open' as well as 'free' licences, supporting the international practice on public licences for the use of open source software in the Russian jurisdiction. Hence, with these amendments in force, the question on whether the public and open source software licences are enforceable in Russia will be irrelevant, although the adaptation of such licences as to Russian legal reality may be recommended in certain instances.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

There is no specific legislation in Russia that governs the nature, amount, manner or frequency of payments of royalties or other fees in an international licensing relationship. Nor is there any law in Russia that requires regulatory approval of the royalty rates or other fees payable by a licensee. Russian law is quite flexible on this issue. Therefore, royalties and lump-sum payments are recognised and applied in this jurisdiction depending on the nature of transaction, contracting parties' negotiations and commercial arrangements.

In addition, Russian law protects default interest as well as interest on late payments. Again, the law does not set out any legal restrictions regarding the recovery of the same. Generally, default interest and interest on late payments must be reasonable, well-grounded and reflect the consequences of the corresponding breach of the contract to be awarded.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

As a general rule, the transfer of foreign currency between residents and non-residents into or from Russia is a currency operation within the meaning of the Russian Federal Law on Currency Regulation and Currency Control (No. 173-FZ dated 10 December 2003 – as amended). Such currency transfer will require the opening of a 'passport of transaction' in the authorised Russian bank where the aggregate contract price is equivalent to US\$50,000 (or more). If the contract price is less than the referenced monetary equivalent, there will be no need to open the 'passport of transaction', and the competent bank will transfer the currency (payment) under the contract without this particular document. Usually, it takes three to seven days to obtain the 'passport of transaction'.

If the contracting parties are international business entities (non-residents), there is no need to obtain the 'passport of transaction' to clear the payment under the licence agreement in Russia.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

Foreign licensors that generate income from the Russian jurisdiction must pay a corporate income tax to the Russian budget. Royalties payable to a foreign licensor, when they are not attributable to the licensor's permanent Russian establishment, are subject to withholding tax that has to be remitted by the foreign licensor's tax agent (ie, a Russian licensee). The present standard rate of corporate income tax (CIT) in Russia is 20 per cent. However, if the foreign licensor is incorporated and does business under the laws of a jurisdiction that has signed a double taxation treaty with Russia, a reduced (or even zero) CIT rate may be applied. But, in order to avoid the double taxation regime, the foreign licensor must provide documentary certified evidence of its

permanent establishment in the relevant contracted foreign jurisdiction. Such evidence must be provided to the Russian licensee before the remittance of the withholding tax.

In addition, the foreign licensor must charge a value added tax (VAT) on royalties payable by a Russian licensee. The present standard rate of VAT is 18 per cent, and it is basically involved in trademark licences, copyright licences and plant variety and breeder's right licences, as all other licences, such design licences, software and database licences, mask work licences, patent and know-how licences have been exempted from VAT since 2008. When the foreign licensor does not have any Russian permanent establishment, Russian branch or Russian representative office, the Russian licensee will be acting as its tax agent in order to withhold and remit the VAT to the Russian budget. Usually, the amount of royalties payable to the foreign licensor under the licence agreement will be grossed up by 18 per cent.

There is no special intellectual property tax in Russia.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

According to article 317(3) of the Russian Civil Code, the use of a foreign currency under obligations during payments on the territory of the Russian Federation is allowed within the framework of the relevant law. The relevant Russian currency law does not prohibit the use of a foreign currency in the international licensing arrangements. Hence, if the contracting parties (non-residents or resident or non-resident) have lawfully agreed upon the payments in certain foreign currency under a particular licensing arrangement, the court may award the appropriate debts, default interests, late payments (monetary relief) in such a foreign currency. However, the state court fee has to be paid in local currency (ie, roubles).

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Anticompetitive practices that restrict trade on the market, including cartels (ie, agreements between competitors trading on the same product market), are prohibited in Russia, if they entail or may entail:

- fixing or support of prices (tariffs), discounts, mark-ups (additional payments) or extra charges;
- an increase, decrease or support of prices at tenders;
- division of the product market by territory, volume of sales or purchase of products, assortment of the products sold or composition of sellers or purchasers (customers);
- limitation or termination of the product manufacture (production); or
- refusal to enter into agreements with certain types of sellers or purchasers (customers).

Other agreements that lead or may lead to restraint of competition in Russia are also prohibited, such as:

- tying a counterparty to enter into an agreement containing certain provisions that are disadvantageous or unrelated to the subject matter of agreement (unreasonable requirements to transfer monetary funds, other property, including proprietary rights, as well as consent to enter into agreement only under condition that it would include provisions related to products in which the counterparty is not interested and other requirements);
- economically, technologically or otherwise ungrounded setting of different prices (tariffs) for the same products;
- creating barriers to other business entities for product market entries or exits; and
- setting of conditions to participate in professional and other associations.

In addition, the above-referenced activities will be banned if they are regarded as concerted actions of business entities that limit competition on the market.

Abuse of dominance and unfair competition are not allowed in this jurisdiction.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

In Russia, intellectual property licensing per se has been exempted from the mentioned (see question 32) antitrust legal restrictions, and, therefore, it is currently beyond the scope of the national antimonopoly law. In this connection, there are no legal restrictions – from the competition standpoint – in respect of the following provisions stated in licence agreements:

- duration;
- exclusivity;
- internet sales prohibitions;
- non-competition restrictions; and
- grant-back provisions.

These provisions must be clearly regulated by contract and will be enforced according to the relevant terms and conditions (as stipulated), subject to the general civil law principles and subordinated intellectual property legislation.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

Typical situation of IP use or abuse may relate, for example, to a trademark infringement claim brought against a bona fide user who has started using a mark in good faith and prior to trademark registration. Another instance of IP use or abuse may be a case when a company registers a trademark and enforces trademark rights against those who have been using the same widely in commerce and prior to trademark registration. The latest court practice also shows that the trademark owner may be requested to demonstrate the actual use of its own trademark in order to claim infringement. Such forms of IP use or abuse may be recognised as unfair by the court, and, as the result, the claims of the 'trademark owner' will be dismissed.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Russian legislation does recognise the legal concept of 'indemnification', although it is slightly different from the one that exists under Anglo-Saxon law. Indeed, indemnity provisions are widely used in various types of international intellectual property licensing arrangements targeted at Russia. In the event of a trademark licence, however, it is not clear how the indemnity provision may work at the end of the day, as according to the imperative rule of Russian law, the licensor and the licensee will have to bear joint and several liability under all claims or actions of third parties addressed to a licensee acting as the manufacturer of licensed products (article 1489(2) of the Russian Civil Code).

Actual damages and loss of profits may also be claimed and awarded as regular civil law remedies in the event of a contractual breach, provided that such damages are reasonable, well-grounded and there is a valid cause-and-effect relation (nexus) between the relevant contractual breach and damages.

Insurance coverage may be used for the protection of foreign licensors in support of the indemnity provisions.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

The parties can contractually agree to limit certain types of damages. Otherwise, damages may be sought and awarded by the aggrieved party in full. At the same time, it is not possible to waive damages or disclaim or limit the liability related to losses of the aggrieved party resulted from the profits of the adverse party in the event of infringement. In other words, the aggrieved party's losses cannot be less than the adverse party's profits. Disclaimer or limitation of liability is usually based on the 'force majeure clauses' that perfectly fit within the basic Russian civil law rules on the liability exclusion.

Termination

- 37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?**

Russian law does not impose any conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship. Neither does Russian law require any payment of an indemnity or other form of compensation upon termination or non-renewal of the licensing arrangement, unless the same has been stipulated by the agreement. Hence, the contractual parties are indeed free to terminate the licence agreement in any manner that has been agreed between them and are also free to decide not to renew the agreement. Where the contracted termination procedure does not require any payment of monetary compensation, termination of the licence agreement will occur under no such payment. In general, termination of the licence agreement will usually be subject to a certain material breach of the contract that has not been cured in due course. In the event of a material breach with regard to payment of royalties or other compensation, the licensor reserves the right to terminate the licence agreement in the unilateral manner (without resorting to any court action) by claiming any sustained damages if the licensee has failed to settle royalties or other form of compensation prescribed by the contract within 30 days upon notification received from the licensor (article 1237(4) of the Russian Civil Code).

On a separate note, if the licence agreement provides for the unilateral termination option, the respective beneficiary will be able to terminate the contract on an ex parte basis without having the other party's consent or signature on such termination. If the licence agreement does not provide for the opportunity to unilaterally terminate the contract, the same may be terminated only by way of the executed termination agreement. Where the licence transaction has been registered, the earlier termination of the same, whether unilateral or mutual, will need to be registered with the competent state authority to have binding legal effect.

Finally, according to article 1235(7) of the Russian Civil Code, the transfer of exclusive rights vested in the intellectual property subject matter to a new owner shall not be a basis for variation, modification or termination of the licence agreement concluded by the previous owner. In other words, the assignment of the licensed intellectual property object shall not affect the existent licence agreement, and the new owner will just 'step into the shoes' of the contracted licensor with all relevant rights and obligations arising out of or from the valid licence agreement.

- 38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?**

The termination or expiration of a licence agreement will automatically terminate any sub-licence granted by the licensee in favour of a third party. In other words, the sub-licence agreement, being a 'derivative' instrument, cannot survive the termination or expiration of the licence agreement, which shall be the main obligation towards the dependent one (sub-licence). An agreement to the contrary may be unenforceable for the parties.

At the same time, nothing shall further prevent the licensor (owner) from assuming the licensee's (sub-licensor's) rights and obligations towards the contracted sub-licensee if the licensor, being the valid owner of the licensed intellectual property, is interested in preserving the licensing relationship with such sub-licensee. In this case, the parties (licensor and sub-licensee) may transform the expired or terminated sub-licence agreement into an effective licence agreement (by entering into a new licence agreement) and continue doing business based upon the new contract.

Bankruptcy

- 39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?**

In the event the licensee goes bankrupt (insolvent) and is liquidated in full, the licence as well as all onward sub-licence agreements will automatically terminate. According to the common rule, which is fixed in article 419 of the Russian Civil Code, the obligation is terminated under the liquidation of the business entity (debtor or creditor). Non-settled royalties or other payments under the terminated licence agreement can be received by licensor through the bankruptcy proceedings set out by law.

Governing law and dispute resolution

- 40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?**

There are no restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties to the contract. Under the basic principle of the international private law, the contracting parties are free to choose the relevant governing law when entering into agreement (or afterwards). In the absence of the choice of law agreement between the contracting parties, the law shall be that of the country where the party, being in charge of performance that has a decisive role for the nature of the contract, is residing or mainly operating. The international licensing arrangement will not be an exception to this fundamental rule of law. According to article 1211(8) of the Russian Civil Code, the law of the country where the licensee has been authorised to use the intellectual property subject matter shall be applied in the absence of the choice of law agreement between the licensor and the licensee. At the same time, when such use has been permitted on the territories of several jurisdictions, the law of the country where the licensor is located or has its principal place of business will govern the parties' relationship under the licence agreement. In general, the law of the country that is more bound up with the contract may be applicable where the nature and terms of the contract, or circumstances surrounding the transaction, clearly evidence such fact (article 1211(9) of the Russian Civil Code).

- 41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.**

Yes, the parties can contractually agree to arbitration instead of resorting to litigation in the local courts. The arbitration proceedings may be conducted in any jurisdiction as decided by the parties and fixed in the contract. Mediation is also available as an alternative form of dispute resolution.

As to collective (class action) arbitration, the same is not applied in the IP/licensing context.

- 42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?**

A court judgment from another jurisdiction may be enforceable in Russia, provided that recognition and enforcement of the foreign court judgment is stipulated by the relevant international treaty, which Russia is a party to, and federal law. And, in the absence of a relevant international treaty a Russian court may recognise and enforce a foreign judgment on the basis of the international principle of reciprocity and comity (comitas gentium). Although not in the licensing sphere, there are at least a couple of successful cases with landmark court decisions when foreign judgments have been recognised and enforced in Russia on the basis of the comitas gentium principle.

Russia is a signatory to many multilateral and bilateral international treaties for recognition and enforcement of foreign judgments,

including the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, 1958) (the New York Convention). Hence, an arbitral award from another jurisdiction that is a signatory to the New York Convention may be enforceable as well.

The Russian federal procedural codes provide certain formal mandatory requirements for recognition and enforcement of foreign judgments and arbitral awards. These include:

- effectiveness of the court judgment under the law of the jurisdiction on the territory of which it has been issued;
- compliance with the statutory three-year term for filing a motion for recognition and enforcement of the foreign court judgment; and
- consistency of the foreign court judgment with Russian public policy, etc.

If such requirements are not observed in due course, a Russian court may refuse to recognise and enforce a foreign judgment or arbitral award.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available in Russia. Injunctive relief may be awarded on the preliminary or permanent condition. The right to seek judicial relief, whether injunctive or monetary, is a legal right of every person which is recognised automatically by civil law. While injunctive relief cannot be waived contractually, monetary relief (eg, damages) may be limited to a certain extent by way of contract in Russia. But, the award of injunctive as well as monetary relief is always left to the discretion of the competent court in charge of the case at issue.

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Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

Foreign licensors and joint ventures involving a foreign licensor can do business in Spain to the extent allowed to Spanish nationals. Filing or regulatory review processes are not required.

However, under Spanish law, a NIF (personal tax ID) is required by individuals or legal persons to perform any transactions of a fiscal or relevant nature in Spain. A NIF is required in order to form a company and/or to file or obtain certain documents that are required or issued by the Spanish public authorities. Consequently, foreign licensors and joint ventures involving a foreign licensor would likely be required to obtain same from the Spanish Tax Agency.

Non-resident foreign nationals intending to enter Spain for the purpose of making a significant capital investment may apply for a stay visa or, where applicable, a residence visa for investors.

For a capital investment to be considered as significant, one of the following criteria must be fulfilled:

- an initial investment of a value equal to or greater than €2 million in Spanish government debt securities, or a value equal to or greater than €1 million in stocks or shares of Spanish companies, or bank deposits in Spanish financial institutions;
- the acquisition of real estate in Spain of an investment value equal to or greater than €500,000 per applicant; or
- a business project intended to be carried out in Spain that is deemed and proved to be of general interest, with one of the following conditions having to be met in order for it to be considered as such:
 - the creation of jobs;
 - the investment will have a relevant socio-economic impact on the geographical area in which the activity will be carried out; or
 - a significant contribution to scientific or technological innovation.

A foreign national applying for a visa will likewise be understood to have made a significant capital investment when the investment is made by a legal person established in a territory that is not considered a tax haven under Spanish law and in which the foreign national directly or indirectly holds a majority of the voting rights and has the powers to appoint or remove a majority of the members of the board.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

Spain's businesses are involved in international trade, and international practices have an impact on the Spanish way of doing business.

By virtue of the principle of contractual freedom, in Spain there are many forms of licence arrangements that parties may wish to enter into, provided that the subject matter is not contrary to Spanish law.

Thus, in Spain there are different forms of licence arrangements, including, but not limited to, the following:

- technology transfer licensing, including patent, utility model and know-how licensing;
- trademark and trade name licensing;
- intellectual property rights (IPRs) (copyright) licensing (including software, music, plays, etc);
- material transfer agreements (that usually involve a royalty-free, research-only licence regarding the material in question);
- design licensing;
- celebrity or character image rights licensing;
- franchise agreements (which include a strong set of licences, including trademarks, trade dress, know-how); and
- plant varieties licensing.

As regards patents, it should be noted that articles 83 to 107 of the Spanish Patent Act 11/1986, of 20 March 1986, provides for the compulsory grant of patent licences.

The legal grounds for granting compulsory licences are stipulated as being the following:

- national or public interest (national security, national defence, public interest or protection of the natural environment);
- failure to work or insufficient working of a patented invention; and
- where a patented invention cannot be exploited without infringing a patented invention with a better priority.

In Spain, the National Authorities entitled to grant compulsory licences are: the government by means of Royal Decree, as proposed by the Ministry of Industry, Tourism and Commerce, the Ministry of Health, the Ministry of Defence and the National Competition Commission.

However, it should be noted that we are not aware of any case of compulsory licences, and the new Patent Act should be borne in mind.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Under Spanish law, there is no legislation governing the creation of the terms of an international licensing relationship. However, competition law could affect this, as could the Tax Agency's rules on transfer pricing.

In fact, the Spanish tax authorities have expressed concerns with respect to transfer pricing issues and have increasingly been paying attention to transfer pricing issues during tax audits.

- What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

There are no express legal requirements regarding pre-contractual disclosure from a licensor to its prospective licensees, except for in the case of franchise agreements.

Thus, in principle, it would be for the licensor and licensee to decide the extent to which they want to explore pre-contractual disclosures. However, in Spain there is a general contractual principle of good faith,

which is more a general obligation to inform the other party of the risks that might affect performance in order to avoid misrepresentation.

On another note, depending on the nature of the information to be disclosed on a pre-contractual basis, it would be advisable to enter into a non-disclosure agreement.

Disclosure or registration of a licence agreement is not compulsory under Spanish law.

5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

In Spain, there are general contractual principles that would apply to contractual matters such as international licensing relationships (should Spanish law be applicable as per the conditions set forth in the agreement). Among them are freedom of contract, unilateral termination in the case of contracts of indefinite duration, duty of good faith and, in very limited cases, the possibility of a party petitioning a court for the modification of the terms of the licence: a *rebus sic stantibus* clause.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

A franchise business usually involves a wide range of licences (know-how, trademarks and trade dress) but it is not limited to this, as it also involves a distribution agreement.

Thus, even though licences and franchises are linked, they are of a different nature. The Spanish legislator understands this as well, and so the offer and sale of franchises is governed by the Retail Commerce Act 7/1996 of 15 January 1996 (the last amendment by Act 3/2014 of 27 March 2014). Article 62 is particularly applicable to franchise agreements. The Act is completed by Royal Decree 201/2010 of 26 February 2010 on Franchise Agreements and the Franchisors' Register.

As for general licences, they are governed by the Civil Law on Contracts, and to some extent by special provisions in certain laws (eg, trademarks).

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Yes, Spain is party to the above, as follows:

- Spain signed the Paris Convention for the Protection of Industrial Property on 20 March 1883; ratification took place on 6 June 1884 and it entered into force in Spain on 7 July 1884;
- Spain became bound by the PCT on 16 November 1989; and
- the TRIPs agreement has been in force since 1 January 1995.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

The licensee can contractually agree not to contest the validity of a foreign licensor's IPRs or registrations in Spain while the contract is in force. However, this could give rise to antitrust issues. In order to achieve a similar result, it might be advisable to draft it as a right of the licensor to cancel the licence should the licensee effectively contest the validity of the licensor's IPRs.

We are not aware of any case where a clause such as the one in the question has had to be enforced.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

Following a final decision that invalidates an IPR or declares that it has expired, the agreement becomes devoid of content and consequently, can be considered as terminated and no further royalties shall be paid.

Should the licence agreement involve additional rights, the contract would remain effective in respect of said additional rights, but the royalties would have to be renegotiated and previous amounts would not be refunded (as the right that has been invalidated or has expired was in force at the time), unless otherwise agreed.

Last but not least, if the licence does not remain in effect for the circumstances referred to above, the licensee, as well as any third parties, can freely compete without paying any royalties.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

Foreign nationals can freely apply for the registration of trademarks, patents, utility models, designs, plant varieties and copyrights. There are no requirements unique to foreign nationals in Spain. However, it should be noted that Paris Convention priority applies in Spain; those claiming such priority must provide evidence of their original right.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Unregistered IPRs can be licensed. However, unregistered trademarks are alien to the Spanish Trademark Act, where acquisition of rights by registration is the general rule. Copyright and unregistered designs and know-how are protected without registration. In any event, as the licensee's position would be somewhat weak, the contract should contain some information on warranties as to the peaceful enjoyment of the rights.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

In Spain, it is not mandatory to record the exclusive licence on the pertinent register, since this is not a requirement in order for the agreement to become valid. Indeed, the relationship between the licensor and licensee can be governed by an unrecorded licence agreement.

However, licence agreements regarding trademarks, trade names, designs, patents and utility models can be registered at the Spanish Patent and Trademark Office. Licences regarding CTMs and Community designs can also be registered at the EUIPO. Finally, licence agreements regarding copyrightable works of any nature, including software, can be registered at the Spanish Copyright office.

An unrecorded licence agreement would have *inter partes* effect; thus, should the licence agreement remain unrecorded, the licensee would not be entitled to enforce its rights against a third party infringer. By recording patent licences on the pertinent register, they would become public documents and would therefore have *erga omnes* effect.

The recordal of a licence is one of the safest ways to proceed in trade, as it demonstrates that the licence agreement exists, the date on which the parties entered into same and its subject matter.

Generally speaking, the licensee is the party that gains the most advantages from having the licence agreement recorded, given that its position would be strengthened against third parties. For the licensor, recordal does not imply any change to its legal status, nor does it give it any special advantages. On the contrary, recordal could give rise to complications in certain cases. By way of example, consider the case of a dispute regarding the agreement being heard by the courts in which the licensee uses the *prima facie* evidence constituted by the recordal of the licence (which has yet to be revoked) in order to continue operating, which would affect the interests of the owner.

There are two relevant regulations to be taken into account regarding the recordal of a security agreement on IPRs in Spain:

- IPR's specific regulations (the Patent Act, the Trademark Act and the Copyright Act); and
- the Chattel Mortgage and Non-Possessory Pledge Act.

The recordal of a security agreement directly at the Patent and Trademark Office or the Copyright Register is simply not feasible unless it has first complied with all the requirements and procedures laid down in the Chattel Mortgage and Non-Possessory Pledge Act. Said Act expressly provides for the recordal of security interests against IPRs.

Therefore, for any pledge to be effective regarding third parties in Spain, it must be entered in the special Chattel Mortgage Registry. Once it is on record, it will be the Registry that informs the Patent and Trademark Office or the Copyright Register of the recordal.

- 13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?**

Generally speaking, the owner or licensor of intellectual property can institute proceedings for infringement in Spain independently, without joining the licensee.

However, this could be adjusted via the conditions set forth in the licence agreement, in which the parties can provide that:

- both parties shall institute proceedings jointly;
- only the licensor shall institute proceedings; or
- the licensee shall be entitled to institute proceedings on its own.

As a matter of fact, it is important to bear in mind the different perspectives of an exclusive licensee and of a non-exclusive licensee.

Exclusive licensees of IPRs can freely institute proceedings for infringement, unless otherwise provided in the licence agreement.

Non-exclusive licensees, on the other hand, would always require the owner's prior consent. However, if the licensor is the only one entitled to institute proceedings and fails to do so following the request of the licensee, and by doing so causes harm to the licensee, the latter would be entitled to bring action against the third party that is infringing the IPR.

- 14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?**

The Trademark Act expressly indicates that a licensee cannot sub-license the use of a trademark or service mark to a third party unless the parties have expressly agreed to this in the licence agreement. Thus, the right to sub-license must be granted contractually.

- 15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?**

Spain is a 'first to file' jurisdiction.

Patent applications are rights in themselves that can be subject to contractual operations, including licence agreements. However, in this case, the parties should be careful as regards the scope of the licence, warranties as to the suitability and the free exploitation of the invention, etc.

- 16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?**

When software is part of a software-implemented invention it can never be protected by patents.

Business processes or methods cannot be protected by patents as such, but as a method incorporated into an invention in order to implement same, they could be somewhat protected.

Living organisms can be protected by patents, but animal and plant varieties cannot be subject to a patent.

- 17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?**

Spain does not have ad hoc legislation on trade secrets. Spain relies heavily on unfair competition law, IP, labour law and criminal legislation.

There is not a formal definition of a trade secret in Spanish law. However, that definition can be found in the EU Guidelines on

Vertical Restraints and the EU Regulation on Technology Transfer Agreements, as well as in TRIPs. Case law and legal doctrine have adopted that definition.

The treatment by the courts differs, as these cases are usually difficult to demonstrate because evidence is scarce.

- 18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?**

Yes, indeed. It must be borne in mind, though, that trade secrets and know-how can become part of the public domain during and after the term of the licence agreement, in which case, the licensee would be free to disclose same.

Improvements made by the licensee belong to same, and so restrictions on disclosure would not be allowed, to the extent that the licensor's core trade secrets as such are not disclosed. Such a restriction could have an antitrust impact and should be avoided.

- 19 What constitutes copyright in your jurisdiction and how can it be protected?**

Spain is an 'author's rights' jurisdiction, which means that it is part of the European legal tradition that focuses both on exploitation rights and moral rights.

All literary, artistic or scientific creations expressed in any medium are protected works under Spanish law, and they include:

- books, pamphlets, writings, addresses, lectures, judicial reports and other works of the same nature;
- musical compositions with or without words;
- dramatic and dramatic-musical works, choreographies, mime and theatrical works in general;
- cinematographic works and any other audiovisual works;
- sculptures, drawings, paintings, engravings, lithographs, cartoons and comics, as well as their preparatory work and any other physical work;
- projects, plans, models and designs of architectural and engineering work;
- graphs, maps and pictures relating to topography, geography and science in general;
- photographs and analogous works;
- computer programs;
- derived works (translations and adaptations, revisions, updates and notes, compilations, abstracts and extracts, musical arrangements and any other transformation of a work);
- databases; and
- collections of works (anthologies).

Cinematographic works, other audiovisual works and computer programs are subject to a slightly different treatment from other types of work.

Original works are granted protection by the mere act of creation, regardless of the nationality of the author or the place of publication. Registration is not required and does not constitute rights; it only creates evidence as to the existence, content and ownership of the work at a certain time. This evidence can be contested at any time by registered and unregistered works. Notarial deposits serve the same purpose and are used by rightholders as well, but they lack the publicity factor of a public register.

- 20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?**

Yes, the licensor should require the contractual assignment of copyright in those cases, drafted in general terms, as an undertaking to assign any and all rights that could be generated.

Software licensing

- 21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?**

Under general Spanish law, as interpreted by case law, perpetual obligations are forbidden. An equivalent effect would be obtained by indicating that licences will lapse upon expiration of legal rights. As regards perpetual software licences, these are interpreted as being similar to purchase contracts and are therefore valid.

- 22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?**

There are no particular requirements to be complied with prior to granting software licences. There are no import or export restrictions, except for those deriving from defence matters.

- 23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?**

Generally speaking, the party to the agreement that makes any improvements and modifications to the licensed software will own same, unless otherwise provided in the contract.

As regards whether a software licensee could obtain bug fixes, upgrades and new releases from the licensor in the absence of a contractual provision to that effect, it would be justified in the case of bug fixes but it is not as clear in the case of upgrades and new releases. Software licences to be renewed periodically, subject to payment, would be more likely to provide improvements and modifications than other licences.

However, it is recommended to always include detailed contractual provisions to this effect in order to avoid any issues regarding interpretation of the contract.

- 24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?**

Yes, this would be technically and legally possible, provided that said process is described in the licences and works only for the purposes described therein (which shall be fully justified) if and when it cannot be considered an abusive clause as per the Spanish regulation on general contracting conditions, and control of the performance of the contract is not conferred on the licensor alone (as this would create a contractual imbalance).

Notwithstanding the above, considering that the licensee would be paying for the licensed software and not able to use it, the disabled or unauthorised access should result in a reduced price.

- 25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?**

It should be noted that the software must work as designed and agreed by the parties and fulfil the goals set out in the agreement. In the absence of an agreement, the software must work in the same way as similar software in the market does.

The significance of the errors in determining the liability of the licensors would depend on the nature of the errors (residual or substantial) and the conditions agreed upon (warranties, etc).

Spanish case law has not dealt with this issue. However, in general terms, Spanish law and legal doctrine consider that the assets may carry errors or encumbrances and that they can be corrected by the licensor voluntarily, or following a request by the licensee, in order for the licence to continue to have effect. Also, the existence of an error that prevents the licensee from using the software could result in the termination of the agreement and compensation of any applicable amounts.

- 26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?**

Civil laws, data protection laws, consumer laws and even criminal laws could apply, depending on the nature of the interference.

Prior consent and knowledge of the user is a must.

- 27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?**

Spanish courts consider that the terms and conditions of public licences for open source software are fully enforceable.

There have not been any legal developments in this regard. However, different Spanish administrative bodies have established a preference for open source solutions in public procurement.

Royalties and other payments, currency conversion and taxes

- 28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?**

There is no legislation that governs the nature, amount, manner or frequency of payments or other fees or costs. The royalty rates or other fees and costs are not subject to approval either.

The parties' freedom to contract would apply.

- 29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?**

Neither restrictions nor requirements apply.

- 30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?**

Under domestic law, the following income is held to be obtained in the territory of Spain: fees paid by persons or companies domiciled in Spain, by permanent establishments located in Spain or which are used in the territory of Spain. With respect to yields of that kind, domestic law provides for multiple exemptions.

If the foreign licensor is located outside Spain, only the income generated in Spain may be taxed.

Fees between associated businesses are exempt in the event that they are paid to a company domiciled in an EU member state or to a permanent establishment of that company located in another EU member state, provided that certain requirements are met.

Double taxation is not permitted by virtue of international treaties.

- 31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?**

Spanish courts can render a judgment in a currency other than euros.

A contractual indemnity, as described above, would be enforceable, but it should be noted that contractual indemnities may be amended by a judge.

Competition law issues

- 32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?**

Yes, indeed. Spanish legislation is fully harmonised with Community legislation.

EU Competition Law bans agreements that restrict competition and abuse of a dominant position. Article 101(1) of the Treaty on the Functioning of the European Union (TFEU) prohibits any agreements that might affect trade between EU member states and anything that

might prevent, restrict or distort competition. Agreements that create sufficient benefits to overcome effects that are contrary to competition shall be exempt from this prohibition pursuant to article 101(3) of the TFEU. The Competition Act 15/2007 of 3 July 2007 contains the same principles, which are applicable where the conduct affects the Spanish market.

Consequently, practices that potentially restrict trade are prohibited and regulated in Spain. Among the practices that are prohibited or restricted are:

- directly or indirectly fixing purchase or selling prices or any other trading conditions;
- limiting or controlling production, markets, technical development or investment;
- sharing markets or sources of supply;
- applying dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage; and
- making 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 matter of such contracts.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

There are indeed restrictions in respect of all the provisions referred to above, should they fall within the scope of the practices referred to in question 32.

In order to assess the impact of any such restrictions, the clauses and the agreement as a whole shall be analysed.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

Spanish courts have established the intellectual property rights are limited by competition laws in some ways, since the granting of an exclusive right is a limitation to free competition. Some legitimate usage of IPRs has been considered harmful to the market and contrary to competition law, since it restricts the normal activity of the market by creating a monopoly in a product that overrides the rules of free competition. One such use is related to selective distribution, where a trademark holder wishes to avoid the European Union criteria on rights exhaustion by claiming infringement by a non-authorised reseller, and thus deter the resale of the previously marketed products. That opinion has been reflected in multiple decisions by the European Union Trademark Courts in Alicante, the most recent judgments being the ones rendered on 6 May and 22 April 2016. Regarding copyright, the Spanish Supreme Court considered, in 2008, that SGAE, the Spanish Authors' collecting society, was carrying out contractual practices that were contrary to competition law, since they were using their monopolistic position to unilaterally establish the contracting conditions in their relations with some companies, forcing them to accept discriminatory conditions.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

The Spanish system is based on two principles, 'damnum emergens' and 'lucrum cessans', in order to determine compensation of damages. Our system is consequently different to the common law system of direct and consequential damages. Indemnification provisions, as well as penalty clauses, are used in our jurisdiction, and even though they can be enforceable, the judge retains the right to adjust them.

Insurance coverage for the protection of a foreign licensor is available in support of an indemnification provision.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

The parties are free to agree, by means of a contract, whether or not to waive or limit certain types of damages. However, should the damages result in the defaulting performance of one of the parties (in breach of the contract), the other party would be entitled to seek relief and compensation.

Disclaimers of liability are common in certain licensing arrangements (technology transfer agreements, material transfer agreements, etc) and are generally enforceable. The same is true for limitations of liability; they are usually enforceable and are often a clause in license agreements. However, there are some exceptions. Damages caused by wilful intent or negligence cannot be waived (articles 1102 and 1103 of the Spanish Civil Code). There are also some cases where objective liability cannot be waived (eg, the rights held by consumers to obtain compensation for the damages sustained as a result of the use of a product or a service provision).

However, some situations, such as liability arising from a criminal offence and wilful misconduct, cannot be waived.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

The parties' freedom to contract in this case means that the parties can agree, should they consider it appropriate, to impose conditions or require the payment of indemnities, as detailed above.

Spanish law has no specific provisions in this regard. However, please note that competition law could apply.

Spanish courts have not extended the application of commercial agency laws to licensing relationships even though there have been discussions concerning this possibility in the case of a distribution agreement.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

Generally speaking, in the absence of any contractual provision, any sub-licences granted by the licensee would be terminated or would expire, as they are dependent on the main agreement. The freedom of the contracting parties is a rule of thumb in Spanish contractual law; thus, a contractual provision aimed at avoiding the lapse of a sub-licence agreement, or providing for its transformation into a licence agreement, would be perfectly enforceable since the rightholder is aware of that condition.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

The impact of the bankruptcy of the licensee on the legal relationship with its licensor would depend on the ability of the bankrupt company and sub-licensees to perform their duties under the agreement.

Under Spanish law, should one of the parties to a licence agreement become bankrupt, the agreement (and sub-licences thereof) would remain in force, as it would be considered an asset of the bankrupt party's estate. The managers of the company would be replaced by receivers appointed by the court, and their duties would include preserving the assets so that the company could survive and the creditors would be satisfied. It should be noted that the Spanish Bankruptcy Act 22/2003 aims for an agreement to be reached between the insolvent

party and the majority of its creditors, with the debtor's objective being to continue to trade. Thus, the receivers would be entitled to declare their will to terminate the agreement and extend its validity.

On another note, article 61.3 of the Spanish Bankruptcy Act 22/2003 states that any clauses providing for the termination of the agreement where either of the parties is declared bankrupt shall be considered void.

The licensor can structure its international licence agreement so as to terminate it prior to the bankruptcy and remove the licensee's rights based on breach of a contractual duty by the licensee rather than on its insolvency.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

The parties are free to choose the laws of another jurisdiction, but in certain cases, given the connection of the licensing arrangement with Spain (eg, parties, performance, etc), Spanish law would apply (taxation, employees' inventions and competition law), notwithstanding the agreement between the parties. Furthermore, in business-to-consumer contracts, consumer protection laws may prevail over any governing law and dispute resolution clause.

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

The parties can contractually agree to resort to arbitration instead of to the courts. The parties are free to decide the jurisdiction and applicable law.

Collective arbitration is regulated in Spain only where consumer rights are affected. Whenever a single situation has damaged the rights of a certain group of people and consumers' collective interests might have been injured, a collective arbitration proceeding can be commenced in order to resolve, in a single procedure, the potential harm for every subject. There are regional and national arbitration bodies to settle these matters depending on the territorial scope of the affected rights. In order for the action to prevail, the companies involved shall be adhered to the consumer arbitration system, which is proposed whenever a claim is sustained. Should the aforementioned companies fail to adhere to the consumer arbitration system, the arbitration is over and the proceedings are terminated, and so the only option remaining is individual or class action before the Spanish civil courts.

As mentioned above, actions to protect collective interests refer to consumer law matters.

Article 10 of the Spanish General Law for the Protection of Consumers and Users provides that 'the prior relinquishment of the consumer rights recognised by this law is null and void, as are acts

carried out through the abuse of law, in accordance with the provisions of article 6 of the Civil Code.' The basic rights of consumers include the entitlement to have their rights protected through effective means.

Article 86 of the aforementioned law, when describing unfair terms that restrict basic consumer rights refers, inter alia, to '7. The imposition of any other waiver or limitation on the rights of consumers or users'.

As arbitration is a voluntary proceeding and the allegedly infringing company has to be adhered to the system, collective arbitration cannot be deemed as one of those rights, mainly because consumers can defend their rights through court proceedings. In conclusion, there are no specific requirements to be met by such a waiver.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

Court judgments, as well as arbitral awards issued in another jurisdiction, are enforceable in Spain. However, they would have to undergo an exequatur process.

The law that governs this procedure varies depending on the origin of the judgment; whether it was from a state within the European Union or from another foreign court.

The parties shall request the exequatur and the judge may only assess whether or not the judgment or arbitral award may be enforced in accordance with Spanish law. In order for the decision to be recognised, it shall meet specific legal requirements, such as:

- the enforcement of the judgment must not be contrary to public policy;
- the defendant must have been summoned in due course before the court at the trial; and
- the enforcement must have been issued in pursuit of a personal action.

On another note, Spain has also been a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards of 10 June 1958 since 12 May 1977. Consequently, the enforcement of an arbitral award, despite being subject to enforcement proceedings, is, in practice, much easier to obtain, as Spanish courts are favourable to enforcement.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available in Spain and cannot be waived contractually.

The parties, when drafting an arbitration clause (eg, deciding the competent arbitral court, the language of the arbitration, the number of arbitrators, etc) can waive their entitlement to claim specific categories of damages.

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Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

A foreign licensor may own a business entity in Sweden or be involved in a joint business venture without any restrictions. The most common form of business entity used in Sweden in this context is the limited liability company. Other forms of legal entities (eg, general partnerships, limited partnerships or cooperative economic associations) may also be used with regard to licensing arrangements, although this is more unusual.

The establishment (formation or incorporation) of a limited liability company is subject to some restrictions set out in the Companies Act. In short, only Swedish legal or natural persons or their equivalents residing within the European Economic Area can take part in the establishment of a limited liability company. However, the said restriction is, for all practical purposes, not an obstacle in Sweden since most limited liability companies owned by foreign entities are not actually established by the said foreign entities, but rather acquired as 'off-the-shelf companies' (ie, a company established solely for the purpose of being transferred to new owners, without having conducted any prior business). Thus, a foreign licensor wanting to establish itself in Sweden through a limited liability company would normally acquire such a company and thereafter commence its licensing business through that company.

An alternative to having a subsidiary may be to establish a branch in Sweden. Briefly, a branch is a local office of a foreign business entity with a separate administration in Sweden represented by a managing director. The branch itself, as well as the managing director and an auditor, must be registered with the Companies Registration Office. However, since a branch is not a separate legal entity – and thus unable to acquire rights and obligations – it is our experience that branches are rarely used for licensing purposes.

Once a licensor has established itself in Sweden through a limited liability company, the company must be represented by a board of directors and a managing director (the latter is applicable only to public limited liability companies).

The Companies Act contains some restrictions as to who can be appointed to such functions, the restriction of interest in this context being the residency requirements stipulating that not less than one-half of the board of directors must be resident in the European Economic Area unless otherwise individually permitted by the Companies Registration Office.

Further, where the company has no authorised representative resident in Sweden, the company shall appoint a Swedish resident to act as the company's agent for the purpose of process on behalf of the company. The said person may very well, for example, be a Swedish attorney acting on assignment from the company.

A foreign licensor without a Swedish subsidiary or branch office wanting to grant a Swedish licensee a licence faces no restrictions to that effect under Swedish law (provided that the licensee's objective

in using the licence is not subject to specific restrictions applicable in Sweden, which would be the case, for example, if the licence relates to alcohol or pharmaceuticals).

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

In Sweden, traditional licensing arrangements span the entire spectrum of intellectual property rights (IPRs) as well as trade secrets (know-how). Thus, common licensing arrangements relate to the main form of IPR – patents, trademarks, design protection rights and copyright (the latter including artistic and literary works as well as software and neighbouring rights) – but may also relate to lesser-known or quasi-intellectual property rights such as semi-conductors and plant variety rights.

A licence arrangement may include licences to one or several underlying rights, such as a combined patent and know-how licence agreement. Licensing (eg, grant-back or cross-border licences) may also form part of technology transfer arrangements, which is often the case with respect to OEM agreements and in cooperation arrangements of various kinds, such as research and development agreements.

Licensing further comes into play as a significant element in contractual arrangements that typically are not categorised as pure or true licensing arrangements, such as franchising agreements, agreements concerning television formats or concepts, and advertising agreements. The requirement to obtain consent (ie, in essence a licence) from a person whose name or picture is to be used in advertising (frequently applied by athletes, actors and other public persons in various endorsement arrangements) may also be considered a form of licensing arrangement.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

There is no Swedish legislation directly concerned with the creation of international licensing relationships. The contractual issues pertaining to a licensing relationship (regardless of whether it is of an international or national character) are governed by general principles of contract law (encompassing, for example, the Contracts Act and other legislative statutes where contractual issues are regulated, as well as analogies therefrom and case law related thereto), supplemented by other legal areas where applicable, such as intellectual property or competition law. Thus, the validity and enforceability of contract terms pertaining to an international licensing relationship will always be viewed and analysed on a case-by-case basis against the relevant legal background. For example, competition law may under certain circumstances restrict the possibility of agreement upon an extensive contract term as well as a requirement to purchase certain products locally. With respect to royalty rates or other fees, such matters – constituting terms and conditions of the licence agreement – will be evaluated as any other contract term, subject to what is stated above and in question 5.

4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

There are no pre-grant or post-grant disclosure or registration requirements specifically aimed towards international licensing rights in Sweden. Where an international licensing arrangement forms part of a franchise relationship, however, Swedish law stipulates that the franchisor shall, in due time prior to executing the franchise agreement, disclose certain information in writing regarding the contents of the franchise agreement to the franchisee. One piece of information required to be disclosed is information regarding the scope and nature of the IPRs that are licensed to the franchisee. A failure to adhere to the said disclosure requirements does not, however, affect the validity of the franchise agreement, but may rather lead to injunctions or penalties (or both) for the franchisor pursuant to market law legislation.

There are no requirements prescribing that licences must be registered with Swedish authorities. Notwithstanding the lack of statutory requirements to that effect, where a licensor or a licensee desires that a certain patent licence shall be registered in the Swedish patent register, the Patent Act provides provisions for such a non-mandatory registration. Similar non-mandatory regimes are found in the Trademark Act and the Design Protection Act.

5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

As indicated above, Sweden largely lacks statutory provisions directly targeted towards international licensing relationships. Thus, general principles of contract law apply to licensing agreements as to other forms of contractual relationships, entailing that court-imposed implicit contractual obligations may very well be imposed, depending on the nature of the licensing arrangement and the question or dispute at hand.

Swedish contract law recognises principles that bear similarity to the concept of 'good faith and fair dealing'. It has been established in Swedish case law, and is widely acknowledged in the legal doctrine, that contractual parties owe each other a duty of loyalty. The said duty is considered sharpened in long-term contractual relationships, such as licensing arrangements. An explicit example of this from a legal field other than licensing can be found in the Commercial Agents Act, where the agent as well as the principal is subject to an obligation to act with loyalty and honesty towards each other.

In this context, section 36 of the Contracts Act should also be noted. The said provision stipulates that a contract term or condition may be modified or set aside if such term is unconscionable having regard to the contents of the agreement, the circumstances prevailing at the time the agreement was entered into and subsequent circumstances in general. Another somewhat different but still similar example is found in section 33 of the Contracts Act, stipulating that a legal act that would otherwise be deemed valid may not be relied upon where the circumstances in which it arose were such that, having knowledge of such circumstances, it would be inequitable to enforce the legal act.

When interpreting licensing agreements, Swedish courts may sometimes apply certain generally accepted principles of contract interpretation, one such principle being that onerous terms may be interpreted against the party that has drafted the term (such interpretation being even more likely where the drafting party is relatively larger or more resourceful than the other party). One example could be arbitration clauses that have been found unenforceable by Swedish courts where the bargaining (financial) strength between the parties was substantially unequal.

Swedish courts and arbitral tribunals may occasionally also be inclined to apply other codified principles, such as the UNIDROIT Principles of International Commercial Contracts, which in article 1.7 prescribe a duty of good faith and fair dealing in international trade.

As indicated in question 21, under Swedish law an agreement (whether a licence agreement or not) is normally entered into for an indefinite period or for a fixed period. In the former case, an agreed or reasonable notice period will have to be observed, while in the latter

case the agreement will expire at the agreed expiration time (obviously a great many combinations of the said main principles can apply, for instance automatic prolongation clauses). Regardless of whether an agreement is entered into for a fixed period or an indefinite period, a party need normally not state any reasons why the agreement is terminated and a party is not obligated to agree on prolongation or renewal.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Under Swedish law, a franchise arrangement, albeit that it usually contains licensing aspects, is normally considered as a contractual relationship *sui generis*. There is, however, no statutory legislation concerning franchises apart from the aforementioned obligation for the franchisor to disclose certain information regarding the franchise agreement to the franchisee. Thus, any principles applicable to franchise arrangements (ie, established through case law or as an outflow from legal doctrine) is unlikely to spill over into licensing arrangements unless they directly concern licensing aspects. The opposite – that general principles regarding licensing will affect those parts of the franchise arrangements that relate to licensing aspects – is, however, most likely.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Sweden is a party to all of the aforementioned treaties.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

To agree upon a no-challenge clause would be effective under Swedish law. Where the parties have explicitly regulated this matter in the agreement, the licensee's breach of the obligation to refrain from contesting the validity of the licensor's IPRs will be considered as a breach of agreement, a breach that may be sanctioned as prescribed in the agreement or, in the absence of provisions to that effect, giving the licensor the right to terminate the agreement prematurely.

Where a licensing arrangement in Sweden concerns issues that are governed by the block exemptions issued by the Commission, the possibility to agree upon no-challenge clauses is more restricted. Consequently, under Commission Regulation (EC) No. 772/2004, no-challenge clauses are not permitted, but it is acceptable to agree that where a licensee challenges a licensor's IPRs, the licensor is entitled to terminate the licence agreement.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

Since the question concerns registered IPRs, we will not elaborate here on IPRs that do not require registration in Sweden (eg, copyrights and neighbouring rights). Such rights will be considered valid in Sweden regardless of whether a registration is in force in a foreign jurisdiction (where copyright registration may be possible).

With respect to registered IPRs, such as patents, trademarks and design protection rights, the licensee's obligation to pay royalties may typically be affected (wholly or partly) where a registration – and thus the grounds for validity of the underlying IPR – is declared invalid. The licensee will typically also have the right to terminate the agreement (in most cases, *ex nunc*) unless the licensee under the agreement receives other valuable essential rights regardless of the expiration or invalidation of the patent or design protection right (such as valuable know-how).

After the expiration of the licence agreement, and provided that the licensee has not undertaken to refrain from competing activities, the licensee is normally free to compete. In carrying out such competing activities, the licensee may, of course, not make use of any (valid) intellectual property rights or trade secrets vested with the (former) licensor.

- 10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?**

In general, no such foreign measures are necessary in Sweden. The registrability in Sweden will be tried on its own merits based on Swedish law. However, with respect to trademarks, for example, where a foreign party that does not conduct business in Sweden wants to register a foreign trademark in Sweden, it may, depending on the jurisdiction of origin, need to show that the trademark in question is registered in its own jurisdiction.

- 11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?**

Nothing prevents the licensing of unregistered trademarks or other unregistered intellectual property rights. It should be observed that from section 2 of the Trademark Act it follows that, even though not registered, a trademark shall be the exclusive property of a trader when the trademark has become established on the market (ie, where the trademark has gained widespread recognition).

- 12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?**

No special requirements exist in Sweden in order for an intellectual property licence to be valid – the general principles of contract law basically apply (obviously, some sort of underlying IPR must exist in order for a licence to be granted).

Swedish law does not require registration or other particular measures to render an intellectual property licence opposable to a third party.

When it comes to taking a security interest in intellectual property, only security interests in the form of a pledge in patents and trademarks are regulated in Swedish law. Such pledge requires that a written agreement regarding the pledge is registered with the registration authority. It is debatable whether it is possible under Swedish law to grant a security interest in other types of IPR with effect towards third parties.

- 13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?**

The Patent Act, the Trademark Act, the Design Protection Act and the Copyright Act all afford the owner of the IPR in question, as well as the licensee, rights independent of each other to institute proceedings against infringers.

With respect to the licensee's right to institute proceedings, the Swedish approach differs a little from other jurisdictions, as in Sweden the right to institute proceedings applies regardless of whether the licensee has been granted an exclusive, sole or non-exclusive licence. Notwithstanding the foregoing, for all practical purposes, a non-exclusive licensee who initiates a claim may have difficulties in obtaining injunctions and proving his or her loss, resulting in a de facto situation where only exclusive licensees can effectively initiate infringement proceedings. Further, where a licensee wants to institute proceedings against an alleged infringer by itself, the licensee must first inform the owner of the IPR of this; the failure to render such information will preclude the licensee from bringing the claim before the court.

The licensee and the licensor may regulate in the licence agreement how infringements shall be treated, and in doing so it is fully acceptable to, inter partes, limit or prohibit the licensee's right to initiate proceedings against an infringer.

- 14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?**

From section 34 of the Trademark Act, it follows that unless otherwise agreed between the owner of the trademark and the licensee, the licensee may not transfer its right (ie, the licence) to a third party. Provisions with the equivalent contents are found in the Patent Act, Design Protection Act and Copyright Act. Thus, where a licensee wants to be able to grant sub-licences, this matter must be addressed in the licence agreement.

- 15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?**

With respect to patents, Sweden is a 'first to file' jurisdiction. A foreign licensor may very well use an invention subject to a filed patent application, but in respect of which no patent has yet been issued.

- 16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?**

Under the Patent Act, anyone who has made an invention that is susceptible to industrial application is entitled to obtain a patent and thereby acquire an exclusive right to exploit the invention commercially. However, a discovery, scientific theory or mathematical method; an aesthetic creation; a scheme, rule or method for performing mental acts, for playing games or for doing business, or a program for computers (software); or a presentation of information are never considered inventions. Further, patents shall not be granted for plant or animal varieties, or essentially biological processes for the production of plants or animals.

Thus, the main rule is that software, business processes or methods or living organisms will not be patentable in Sweden. Notwithstanding this main rule, decisions by the registration authority and court cases in Sweden indicate that computer programs that have a technical effect may be protected by patent.

- 17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?**

Trade secrets are subject to specific legislation in Sweden pursuant to the Trade Secrets Act (which in principle also can encompass 'know-how'). Under the Trade Secrets Act, a trade secret is defined as 'such information concerning the business or industrial relations of a person conducting business or industrial activities, which that person wants to keep secret and the divulgence of which would be likely to cause damage to him from the point of view of competition'.

In addition to the definition in the Trade Secrets Act, where a licensing arrangement in Sweden concerns issues that are governed by the block exemptions issued by the Commission, other definitions of know-how are used. For example, Commission Regulation (EC) No. 772/2004 defines know-how as 'a package of non-patented practical information, resulting from experience and testing, which is secret, substantial and identified'.

- 18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?**

As follows from question 17, certain information may very well constitute a trade secret under the Trade Secrets Act for an indefinite period of time (basically as long as the disclosing party keeps the information secret and the unauthorised disclosure could cause harm to it) and thus, as long as the information is regarded as the licensor's trade secret, the licensor may by way of contract restrict the licensee's disclosure or use thereof, both during and after the term of a licence agreement. Where the (former) licensee after the termination or expiration of the licence agreement uses or discloses the licensor's trade secrets,

the licensor may instigate claims against the licensee under the Trade Secrets Act. In exceptional cases, competition law rules may, however, limit such restrictions.

In principle, notwithstanding that the licensee may be entitled to independently exploit such improvements, the licensee may undertake such restrictions also in regard of improvements to which the licensee has contributed.

19 What constitutes copyright in your jurisdiction and how can it be protected?

Under the Copyright Act, two different types of works – works of literary and artistic character – are protected (eg, fictional or descriptive representations in writing or speech; computer programs; and musical, dramatic, cinematographic, photographic or other works of fine arts). In addition hereto, the Copyright Act also protects certain ‘neighbouring rights’ (eg, rights pertaining to performing artists; producers of recordings of sounds and of images; the use of sound recordings for public performances; and producers of catalogues).

Any literary or artistic work is protected immediately upon creation, provided that it has been created by a human being and that it amounts to a set of elements, expressed in any manner or form, of an independently achieved original character. The requisite ‘originality’ is present when the work has gained a certain ‘modicum of creativity’ as compared with what already exists and what may come to exist in the future. Copyright only protects the form of what has been expressed and thus not the intellectual thought behind it. For this reason concepts, ideas and plots, which have not been manifested in a certain form or expression, are not protected by copyright.

There are, however, no qualitative or quantitative requirements stipulated and no formal requirements (such as registration) necessary in order to obtain copyright protection. Further, copyright cannot – unlike many other jurisdictions – be even voluntarily registered in Sweden.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

Since copyright is considered constituted pursuant to what is described in question 19, it is advisable to agree upon the assignment of any copyrightable works that the licensee creates within the scope of the licence. Since Sweden, with the exception of copyright subsisting in computer programs, does not adhere to the ‘work-for-hire principle’ when it comes to works created by employees, it is especially advisable that, where the licensee is a business entity with employees, the licensee also has agreed with its employees of such assignments so that the licensee thereafter can assign the works to the licensor. Equivalent agreement shall be executed between the licensee and any subcontractors that it engages with respect to the licence.

Software licensing

21 Does the law in your jurisdiction recognise the validity of ‘perpetual’ software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to ‘perpetual’ licences?

As far as we are aware, the issue of perpetual software licences has not been specifically tested under Swedish case law and the legal situation is uncertain. It is sometimes argued that licence agreements (or other forms of agreements) with a ‘perpetual’ or ‘eternal’ term should be regarded as agreements without a fixed term; the latter category is normally terminable upon reasonable notice under Swedish law. However, as for software licences, the kind of software that the agreement relates to must be analysed. It could be argued that non-exclusive licences, pertaining to ‘off-the-shelf software products’, bear more similarity to the legal regime sale and purchase rather than to the legal regime licence, and that with respect to such products, Swedish courts would be more inclined to accept ‘perpetual’ licences than with respect to more custom-made software products.

In this context it shall be noted that the Supreme Court, in a 1992 case, held that a settlement agreement – which included something that could be characterised as a trademark licence but where the agreement did not state a specific term for the usage of the trademark – was to be

interpreted as being valid for as long as it would be useful (for the licensee). Thus, the case has given some support to the idea that perpetual licences could be considered valid under certain circumstances.

The best way to avoid the uncertainties regarding perpetual licences is to agree on a fixed term for the licence, based on a reasonable presumption of the length of time the software will be of use to the licensee.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

With respect to the licence as such (namely, the contractual grant of rights) the general rule is, as described above, that no statutory requirements apply. Whether any legal requirements need to be complied with largely depends on the specifics of the object of the licence. For example, software that is treated as a dual-use product, meaning that it is regarded as having both civil and military use, such as cryptographic software with certain ‘key length’, is the subject of export control in Sweden as in many other countries.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

In Sweden, issues regarding the right of ownership to improvements and modifications are normally governed by the parties to the licence agreement (sometimes structured so that the licensee owns them but renders a grant-back licence to the licensor and sometimes vice versa). In the absence of such an agreement, the parties will have to fall back on the overall rule that IPRs are owned by the person who has created them (as mentioned in question 20, Sweden does not generally adhere to the principle of ‘work for hire’).

With respect to bug fixes, upgrades and new releases, this matter is also normally regulated in the licence agreement (the provision of such additional services is quite often something that the licensee remunerates the licensor for and can often form a substantial part of the licensor’s revenues). It could be argued that bugs – at least from a principle point of view – shall be regarded as defects in the licence object, entailing that the licensor is obligated to offer bug fixes at no cost to the licensee in order to fulfil its obligation to deliver a non-defective licence object. However, it is our experience that this kind of reasoning is rarely accepted by the licensor, and thus bug fixes are treated similarly to upgrades and new releases (although sometimes provided without additional charges). Apart from this, a licensee would not be entitled to demand bug fixes, upgrades and new releases from the licensor in the absence of a contractual provision to that effect.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

There is no statute explicitly prohibiting these specific measures. However, section 26(g) and (h) of the Copyright Act must be observed. These partly non-waivable provisions state, among other things, that a licensee, with certain restrictions, is entitled to observe, study or test the function of a computer program in order to ascertain the ideas and principles that lie behind the various details of the program and to reproduce or translate the software source code to the extent necessary to achieve cooperability with another software. To the extent the licensor’s process or routine limits or makes impossible any measures that a licensee is entitled to effect pursuant to section 26(g) and (h), the effect of such process or routine could constitute a breach of contract.

Further, where the licensor effects measures that could cause damage to or loss for the licensee, the licensor exposes itself to claims of damages from the licensee.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

As far as we are aware, there are no cases from the appeal courts or the Supreme Court dealing specifically with this issue.

As stated above, the licensor's liability for defect is normally regulated in the licence agreement. Failing provisions to that effect, one approach that the courts may adopt could be to apply the Sale of Goods Act by way of analogy. Such an approach would typically lead to liability for the licensor to deliver software that is error-free and, failing to do so, it would be obliged to correct the defect or make a substitute delivery. The licensee would alternatively be entitled to a price reduction, and where the defect is of a material character, would also be entitled to terminate the agreement. In addition, the licensee would be entitled to damages for any loss suffered.

Another approach that the courts may adopt could be to glance at and apply the regime for liability and remedies found in standard agreements frequently used in Sweden. Where the court chooses such a solution, it is likely that the liability of the licensor is more limited than compared with what follows from the Sale of Goods Act. In most cases, the licensor would not assume any liability for minor defects, and the remedies would be limited to rectification and redelivery.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

In general, the main rule would be that where the parties in question in the licence agreement have agreed to measures such as the ones described in the question, such measures would be permitted pursuant to the freedom of contract principle.

However, this question spans a number of issues; each of which would have to be analysed separately and could lead to the main rule not being applicable or only partially applicable. Factors such as, the nature of the 'interference', the consequences thereof and the nature of the parties involved would have to be considered. For example, where any 'interference' entails the processing of personal data, any restrictions set forth in data protection and privacy legislation would have to be considered, and where the 'interference' entails that automated electronic messages are sent from the licensee to third parties, any restrictions set forth in applicable marketing law and e-commerce legislation would have to be considered.

Implementation of updates, upgrades, etc, would typically be something that would be governed by the licence agreement at hand and that would thus normally be permitted (in fact it is often something that the licensee pays for or has to accept in order to be able to utilise the applicable software in an optimal manner).

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

To our knowledge, there are no cases from the appeal courts or the Supreme Court dealing specifically with this issue.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

Again, Swedish law largely lacks statutory provisions aimed specifically at licensing arrangements and adheres to the principle of freedom of contract. Thus, typically the parties to a licence agreement are free to agree upon the nature, amount, manner and frequency of royalties and other payments. In the event that a party is in delay with payment, interest on late payment will accrue pursuant to the Interest Act (in most cases at an annual rate equivalent to the Swedish Central Bank Reference Rate with an addition of eight percentage units).

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

There are no general restrictions of this nature in Sweden applicable to licensors and licensees in licensing arrangements. However, the transfer and remittance of currency may be subject to reporting requirements.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

In general, only where a foreign licensor is considered as having such a connection to Sweden that the licensor incurs tax liability in Sweden will it be taxed on income (eg, royalties) generated from the licence. As a basic rule, such a connection is considered at hand if the licensor has a permanent business establishment in Sweden. Thus, the question can only be answered effectively on a case-by-case basis considering the applicable circumstances pertaining to the licensing arrangement at hand.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

A Swedish court may render a judgment in foreign currency. However, if the debtor does not pay voluntarily, enforcement of the judgment will in most cases lead to that payment being made in Swedish currency.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

In general, any competition law rules applicable within the European Union will naturally encompass Sweden (being a member state), and domestic Swedish competition law rules are no more restrictive and go no further than the European equivalents (other thresholds and conditions may apply, however). Thus, any practices that potentially restrict trade may be prohibited, provided that the licensing arrangement is of such a character that competition rules are affected. Further, even where the licensing arrangement does not affect the market in such a manner that European or domestic Swedish competition law rules become applicable, the licensor and licensee are advised to observe section 38 of the Swedish Contracts Act, which contains some restrictions with respect to how far-reaching any non-competition undertakings that the parties can agree to may be. The said provision is applicable to any contractual relationship and thus not only to licensing arrangements.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

As stated in question 32, provided that a licensing arrangement is of such a character that competition rules are affected, any provision mentioned in this question may be subject to restrictions under competition law rules, none of which is specific to Sweden. As an example, it is normally not allowed to prohibit passive sales, which may restrict the possibility to prohibit internet sales.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

To our knowledge, there have been no such cases in Sweden.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Yes, indemnification provisions are commonly used and generally acceptable under Swedish law. Exceptions may apply in rare cases where circumstances such as those mentioned in question 5 would make it unconscionable to request the enforcement of such a provision.

The licensee may naturally seek to insure an obligation to indemnify the licensor and such insurance is common. However, normally such insurance covers only damages that are caused through negligence – thus not covering a ‘strict liability’ – and will further normally not cover damages caused wilfully or through gross negligence.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Yes, in principle the parties are free to agree upon waivers and limitations with respect to the scope and nature of recoverable damages. Consequently, the parties may, for example, agree that only direct losses shall be compensated, while liability for indirect or consequential losses shall be excluded. Sometimes an exclusion such as the latter is coupled with a carve-out so that indirect losses are still compensatable where losses have been caused by the party in breach through gross negligence or intentionally.

A complete disclaimer from any and all liability is probably not enforceable under Swedish law. Support for this is found in Swedish and Nordic case law where it has been held that disclaimers from liability for damages (direct as well as indirect) are valid, provided that at least some other remedies remain available for the non-breaching party (eg, a right to have defects rectified or a right to purchase substitute goods at the expense of the party in breach).

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

In general, Swedish law adheres to the doctrine of freedom of contract and thus, where the parties have agreed in the licence agreement how and when termination shall occur, such agreed terms will be enforceable. However, where the parties have failed to agree upon such provisions (or omitted to regulate the term and termination of the agreement), general principles of contract law will apply, entailing that agreements entered into for a fixed period will automatically expire at the end of the said period and agreements entered into for an indefinite period may be terminated subject to reasonable notice. Where the agreement does not regulate the term, and where no common intention between the parties regarding the term can be ascertained, it could be argued that with respect to patent licence agreements the term will correspond to the life of the patent, entailing that the agreement is normally non-terminable before the expiration of the patent in question.

Where a licence arrangement forms part of an agency agreement, which falls within the realm of the Commercial Agents Act, the agent

will be entitled to compensation calculated in a specific manner when the agency agreement is terminated (unless certain exceptions apply). With respect to other contractual relationships, which may include licensing arrangements, there is no mandatory right to indemnity or compensation upon termination or non-renewal.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

Unless common party intentions to the contrary can be ascertained, the termination or expiration of the main licence will have the same effect on any sub-licences derived from the main licence. To what extent a contractual provision, setting forth that any sub-licences granted shall cease if the main licence arrangement ceases, would be enforceable depends on where such a clause is inserted (ie, in the main licence agreement or in the sub-licence agreement), how such a clause is drafted (eg, whether it entails third party rights) and which party that wants to have it enforced (ie, the licensor or the licensee in his capacity as sub-licensor). However, as a general rule, such clauses are enforceable in Sweden. One way in which it may be enforced is to apply for an injunction where the court orders the sub-licensee to refrain from the sub-licensing activities subject to a penalty of a fine. An alternative approach, in a situation where a sub-licensee, in violation with a contractual provision stating that the sub-licensing activities shall cease, continues with the licensing activities, could be for the licensor to instigate an IPR infringement case against the sub-licensee.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

The impact of the bankruptcy of the licensee on the legal relationship with its licensor is not quite clear under Swedish law, and the outcome may also depend on what kind of licence is at hand (eg, a copyright licence to artistic or literary works may be treated differently from a patent licence). In principle, a licence right (especially a patent licence) will typically be an asset that, in the event of bankruptcy of the licensee, will transfer to the bankruptcy estate and thus thereafter be under the control of the bankruptcy receiver, though the receiver can choose not to take up the rights of the licensee.

Many licence agreements provide the right for the licensor to terminate the agreement in cases of insolvency or bankruptcy. The validity of such a clause is questioned, at least as far as concerns termination after the bankruptcy has occurred. However, a clause providing only for termination prior to the bankruptcy is likely to be valid.

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Governing law and dispute resolution**40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?**

No, generally, the parties are free to decide upon applicable law in a licensing arrangement. However, in licensing arrangements where the licensees consist of consumers, and where the rights of such consumers, owing to the application of foreign law, are limited or circumvented as compared with what would have followed had Swedish law been applied, the validity of such clauses may be questioned or set aside.

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

As with applicable law, the parties are free to agree upon a dispute resolution regime entailing that these disputes shall be settled by way of arbitration instead of through the ordinary courts. The parties may at their discretion decide upon what set of arbitration rules shall apply and in which jurisdiction the arbitration proceedings shall be conducted. Where the parties have agreed that disputes shall be settled by arbitration but have not agreed upon any specific arbitration rules, the Swedish Arbitration Act will be applicable provided that Swedish law is applicable to the agreement as such. Multiparty arbitration is allowed if there is an arbitration agreement in effect which provides for such arbitration. However, the concepts of collective, class-action or group arbitration are not recognised under Swedish law.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

Court judgments issued in countries that are party to the Brussels and Lugano Conventions or subject to the Brussels I Regulation are enforceable in Sweden, whereas court judgments from other jurisdictions are not (eg, a court judgment issued in the United States is not enforceable in Sweden).

Sweden is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available in Sweden, and the parties may waive it contractually. However, to waive injunctive relief in advance in a contract is unusual. The Swedish Code on Judicial Procedure is silent on the matter as to whether any conditions must be met when agreeing upon such clauses, and thus the general principles regarding how binding agreements are concluded will apply. In this case, assuming that the contractual waiver could have far reaching effects for the parties, it is likely that the courts will require that the contractual provision is clearly drafted, that it has been negotiated individually between the parties and that it truly reflects both parties' intentions in order to uphold it (if the clause is ever challenged). It is, in principle, possible for the parties to structure an arbitration clause (or agree later) so that the arbitrators are competent to decide only on specific categories of damages. However, such a clause would open the possibility for the parties to have those excluded categories tried before a court of law. Thus, where the parties want to limit their right to damages in a certain aspect and still have the agreement subjected in full to arbitration, it is more advisable to regulate such limitation in a limitation of liability clause rather than in an arbitration clause.

Switzerland

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Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

A licensor who intends to enter into a licence agreement under Swiss law can do so without establishing a subsidiary or branch office in Switzerland. However, there are no particular restrictions on the establishment of a business entity or a joint venture by foreign licensors in Switzerland, and no filing or regulatory review process applies.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

It is commonly understood that only intellectual property rights can form the subject matter of a (typical) licence agreement. As such, distinctions are primarily made between patent licences (including rights to supplementary protection certificates), software or other copyright licences, trademark licences, design right licences and licences regarding topographies of semiconductor products. When know-how and celebrity or personality features form the subject matter of a licence agreement, the licence is referred to as 'untypical licence' or 'mixed licence', if the licence arrangement also encompasses intellectual property rights.

With regard to the scope of licence arrangements, a distinction is made between exclusive, sole and non-exclusive licences. Exclusive licences confer all rights in the subject matter of the licence to the licensee. With sole licences the licensor retains the right to use the subject matter of the licence while undertaking not to grant licences to any third parties. In a non-exclusive licensing setup the licensor may grant a limited or unlimited number of additional licences with respect to the same subject matter and the licensee's rights are more limited (eg, no standing to sue and no right to grant sub-licences).

Finally, a distinction can be made between licences freely negotiated between the parties and compulsory licences. Compulsory licences are primarily known in the patent and copyright field.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Under Swiss law, licensing agreements are innominate contracts, or more precisely 'sui generis contracts', for which no comprehensive set of specific rules exist in statutory law. The intellectual property laws provide rules for certain aspects of licence agreements such as the rights of joint owners, the right of exclusive licensees to sue or the registration of licence agreements in the intellectual property rights registries. For other aspects, the general provisions of contract law are applicable in addition to certain rules of lease, rental, purchase agreements or of property law that may be applied by analogy. The rules on

simple partnerships may play a role in licence arrangements that have company-like features.

Generally speaking, the parties to a licensing arrangement are free to negotiate all aspects of a licence agreement. Where they have not stipulated specific rules, the hypothetical intention of the parties must be determined in the first place, and only in the second place the is the above-mentioned legislation applied either directly or by analogy. The parties' freedom to contract is only limited by few mandatory provisions of general contract law (see, eg, questions 36 and 37) and by competition law (see questions 32 and 33). Under very specific circumstances mandatory provisions of agency law could also be applicable by analogy (see question 37).

- What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

Under Swiss law, there are no specific pre-contractual disclosure obligations that must be respected by the licensor. However, the general obligation of fair dealing and good faith (see question 5) requires each party to disclose information that might influence the decision of the other party to enter into the contract, or to enter into it in certain terms. The Federal Supreme Court has decided that a disclosure obligation exists if the licensor is aware of a concrete and serious risk that the licensed rights be nullified or not granted and that the possibility to use such rights be considerably impacted.

Furthermore, if the licensee has been induced to enter into a licence agreement by fraud of the licensor, it is not bound by such agreement.

Generally speaking, there is no obligation to register international licensing rights with Swiss authorities (with one exception, see below). However, the parties have the possibility to register the licence in the respective intellectual property registries, which may have certain advantages for the licensee. In particular, a registered licence can also be enforced against any subsequent buyers of the licensed IP rights.

As an exception, licences on collective marks need to be registered to be valid.

- Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?**

The principle of good faith and fair dealing is a fundamental principle of Swiss law. It is expressly enacted in article 2 of the Swiss Civil Code (CC), which states that 'Every person is bound to exercise his rights and fulfil his obligations according to the principles of good faith.' This rule has become a general principle of law and plays an essential role in the interpretation and completion of contracts. The fair-dealing obligation already applies to the pre-contractual stage where non-compliance with such principle can result in liability under the principle of culpa in contrahendo (see also question 4 with respect to pre-contractual disclosure obligations).

As regards termination and non-renewal of licence agreements, the principle of good faith can, for instance, be invoked when the termination occurs at an improper time that causes particular harm to the

other party without cause. Contrariwise, it appears contrary to Swiss legal principles to force a party to actively renew an agreement because of good faith considerations.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Franchises are not specifically dealt with by any statutory laws, and there is only sparse case law in this field. However, legal practice and doctrine recognise franchises as a separate category of contracts sui generis with elements of licensing and distribution agreements. The default provisions of contract, property or company law mentioned under question 3 may also apply to franchise arrangements. Licensing principles are applicable with respect to the licensing component of franchise agreements.

From a competition law perspective the rules on vertical restraints are particularly significant in the context of franchise agreements.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Switzerland is a party to all these international treaties.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

There is no statutory rule that prohibits the conclusion of non-challenge clauses in licence agreements under Swiss law. Pursuant to an older Supreme Court precedent, a prohibition to challenge the licensed rights is allowed and can in some cases even be inferred from the circumstances of the case, even if it is not explicitly contained in the agreement.

The majority of Swiss scholars consider non-challenge clauses to be fundamentally valid under Swiss competition law. Pursuant to a more recent doctrine, however, such clauses can be potentially problematic and prohibited as a matter of competition law.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The expiry or invalidity of an intellectual property right leads to the termination of a licence agreement concerning such right if the parties have not agreed otherwise. The parties are allowed to agree otherwise and often do so, in particular if several rights are licensed in the same agreement or if additional assets, such as know-how, are licensed.

Save for special circumstances, the licensee is in principle not entitled to be refunded the royalties paid under the licence agreement prior to the underlying right being declared invalid or prior to the invalidity becoming apparent to any third party. Swiss courts consider that the appearance of the validity of the right has an economic value, from which the licensee has benefited during the term of the agreement.

After the termination of the licence agreement, the licensee can freely compete with the licensor, unless the parties have agreed otherwise.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

Foreign applicants must designate an address for service in Switzerland for the notification of any office actions and other communication from the relevant authorities. There are, however, no requirements that are unique to foreigners with regard to the documents to be filed with the Swiss Federal Institute for Intellectual Property (FIIP).

If the applicant for the registration of an intellectual property right claims the priority of a foreign prior right (article 4 of the Paris Convention), the applicant must file the original certificate of registration of the jurisdiction of origin with the FIIP.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Yes. Unregistered intellectual property rights (such as copyright) can be licensed under Swiss law.

Unregistered signs, know-how and celebrity or personality features (which are not considered to be intellectual property rights) can also form the subject matter of licence agreements ('untypical' licence agreements, see question 2).

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

Under Swiss law, there are no form requirements for licence agreements. Licence agreements are valid even if concluded orally or tacitly.

Licence agreements concerning patents, trademarks, designs and plant varieties can be entered into the respective registers. The registration of the licence makes it opposable to third parties, as explained in question 3.

A pledge of intellectual property rights can only be validly entered into in writing. The pledge can (but does not need to) be entered into the respective register. However, similarly to the registration of licences, the registration makes the pledge opposable to third parties.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

The owner of an intellectual property right can always institute proceedings against third parties for infringement without having to join the local licensee to the proceedings.

Any person who holds an exclusive licence into a patent, a trademark, a design (irrespective of whether it is entered into the register) or copyright is entitled to institute infringement proceedings and request financial compensation resulting from the infringement, provided that this is not expressly excluded by the licence agreement. The exclusive licensee can be contractually prohibited from instituting infringement proceedings if this is explicitly mentioned in the licence agreement.

Both exclusive and non-exclusive licensees can join an action for damages filed by the rightholder in order to claim their own loss or damages.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

Trademarks and service marks can be sub-licensed under the conditions set out by the main licence agreement. It is disputed among Swiss legal scholars whether sub-licences can be granted in the absence of explicit contractual provisions. Whether the licensee has the right to grant sub-licences is therefore a matter of contractual interpretation in every specific case (see question 3). It is thus advisable to include a corresponding section in the main licence agreement.

The majority of Swiss scholars agree that non-exclusive licences generally cannot be sub-licensed without the licensor's prior consent. The licensee can waive its right to sub-license.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Switzerland is a first to file jurisdiction. Both Swiss and foreign licensors are allowed to license an invention subject to a patent application but in respect of which the patent has not been issued.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

Software, business processes or methods are in principle not patentable.

Although software itself cannot be the subject matter of a patent, patents can be granted for computer-implemented inventions. In addition, software code is protected as a work under copyright law.

Pursuant to the Patent Act, the human body and its elements, naturally occurring gene sequences and 'inventions whose exploitation is contrary to human dignity or that disregard the integrity of living organisms or that are in any other way contrary to public policy or morality' are not patentable. The Patent Act also explicitly excludes patents on plant varieties and animal varieties; it also excludes essentially biological processes for the production of plants or animals.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

Trade secrets and know-how are protected by general contract law, the Federal Act against Unfair Competition (theUCA) and the Swiss Criminal Code.

There is no statutory definition of trade secrets under Swiss law. Pursuant to court precedents and scholarly writing, trade secrets are defined as information that is not publicly available and actually kept secret by its owner. In addition, the owner has to have an interest in keeping the information from becoming publicly known.

Trade secrets are not considered as exclusive rights by Swiss courts. The remedies under theUCA include injunctions against the use of information obtained in breach of a confidentiality undertaking and damages for breach of confidentiality.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

The parties to a licence agreement can agree on restricting the use and the disclosure of the licensor's trade secrets both during and after the termination of the agreement.

There are no statutory rules on the ownership of improvements of know-how made by the licensee. In the absence of explicit contractual provisions, the agreement must be interpreted (see question 3), whereby such interpretation should not lead to a result that is inconsistent with competition law (see question 33).

19 What constitutes copyright in your jurisdiction and how can it be protected?

Pursuant to the Federal Act on Copyright (theCA), copyrighted works are literary and artistic intellectual creations with an individual character, irrespective of their value or purpose (article 2(1)CA). This includes in particular:

- literary, scientific and other linguistic works;
- musical works and other acoustic works;
- works of art, in particular paintings, sculptures and graphic works;
- works with scientific or technical content such as drawings, plans, maps or three-dimensional representations;
- works of architecture;
- works of applied art;
- photographic, cinematographic and other visual or audiovisual works; and
- choreographic works and works of mime (article 2(2)CA).

Computer programs are also protected under copyright law (article 2(3)CA).

TheCA also protects derivative works in their own right. Derivative works are works that are based upon pre-existing works, whereby the individual character of the latter remains identifiable, in particular translations and audio-visual or other adaptations of pre-existing works (article 3CA). The protection of the pre-existing work is reserved, that is to say the use of the derivative work is subject to the consent of the owner of the copyright into the pre-existing work.

Works are protected by copyright law as from their creation. In other words, it is neither necessary nor possible to register copyrighted works with a state authority.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

In the absence of contractual clauses, the ownership of works and derivative works created by the licensee (or created jointly by the licensor and the licensee) will be determined by general copyright law and the general law of contracts. Swiss statutory law does not contain a comprehensive set of rules regarding joint ownership of intellectual property. As a result, if the licensor desires to acquire ownership of artworks, software improvements or other works created by the licensee or to which the licensee has contributed to, it is advisable to set this out explicitly in the licence agreement.

In the absence of contractual clauses, any works created by the licensee alone will in principle be owned by the licensee alone. If both the licensor and the licensee have contributed to the creation of a work, they will be considered joint holders of the underlying copyright. In this case, they may only use the work with the consent of all authors. Pursuant to theCA, such consent may, however, not be withheld for reasons contrary to the principles of good faith.

Grant-back clauses are subject to scrutiny under competition law; see question 32.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Swiss contract law does not recognise perpetual agreements in principle. That is to say, all long-term agreements can be terminated unilaterally without cause after a certain minimal duration, even if this is not foreseen or explicitly excluded by the agreement. The allowed minimal duration depends on the intensity of the mutual obligations of the parties in the individual case.

Swiss authors and one trial court decision consider, however, that perpetual software licences can be treated like the sale of one copy of the software, in particular if the licensor has relinquished control over the relevant copy, the licensee has paid an initial one-time licence fee with no further recurring payments and the amount of the fee corresponds to the economic value of the relevant copy. Thus, the licensee of a 'perpetual licence' can be considered as having obtained legal title to the underlying copy.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

There are no general administrative restrictions to the granting of licences for software. However, pursuant to the Federal Act on the Control of Dual-Use Goods and of Specific Military Goods, software that was designed or modified for military purposes, as well as software that may be used both for civilian and military purposes, is deemed to be 'goods' within the sense of the statute and can be subject to import and export restrictions.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

In the absence of specific contractual provisions, the party that created the improvements and modifications is deemed to be the owner of such improvements or modifications. These will most often be considered to be 'derivative works' within the meaning of theCA (see question 19).

The software licensor must provide bug fixes, upgrades and new releases as foreseen by the licence agreement. In the absence of specific contractual provisions, this question must be answered by way of contractual interpretation in the individual case (see question 3).

- 24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?**

If the licensee of the processes or routines is informed beforehand, including such a process or routine is not forbidden. Contrariwise, the use of such processes or routines to disable, erase or otherwise affect the licensed software without the licensee's consent can trigger damages and may be a criminal offence.

- 25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?**

We are not aware of court decisions that recognised this principle. However, the vast majority of Swiss scholars consider that it is of common general knowledge that software is not inherently error-free and thus not every error automatically constitutes a defect in the legal sense.

- 26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?**

The use of such software can be considered a breach of data protection legislation, protection of personality rights and may, in specific cases, constitute a criminal offence. It is therefore advisable to inform the user and ask for the user's prior consent.

With respect to software that collects, stores, sends or processes in any other way sensitive personal data of the user or personality profiles of the user, consent must be given expressly in the individual case to be compliant with data protection law.

- 27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?**

We are not aware of any such court decisions in Switzerland.

Terms and conditions for open source software must be clearly referenced in the main agreement between licensor and licensee. Pursuant to the general law of contracts, provisions of such terms and conditions that are deemed 'unusual' cannot be validly agreed upon, unless they are explicitly included in the main agreement.

Royalties and other payments, currency conversion and taxes

- 28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?**

There is no legislation governing the nature, amount, manner or frequency of royalty payments or other fees or costs. The parties are, in principle, free with respect to their financial arrangements. Likewise, neither royalty rates nor other fees or costs require regulatory approval in Switzerland.

However, under specific circumstances certain restrictions on the parties' commercial freedom may follow from the applicable competition laws. This applies in the field of standard essential patents, or where licensing arrangements are capable of unduly influencing the market prices of the products at stake (eg, if in cross-licensing agreements between competitors very high royalties are agreed with the purpose of raising the market price).

The Swiss Code of Obligations provides for dispositive rules on interest payable on late payments, which are applicable to international licensing agreements if the parties have not stipulated otherwise. Pursuant to these rules, the interest rate for late payments in commercial arrangements corresponds to the applicable bank discount rate but is at least 5 per cent.

- 29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?**

There are no restrictions on transfer and remittance of currency in Switzerland.

Switzerland's Anti-Money-Laundering Law newly imposes certain identification and documentation requirements when cash payments in a total amount of more than 100,000 Swiss francs are made. Such requirements do not apply when money is transferred via a financial intermediary.

- 30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?**

Only licensors incorporated or with a permanent establishment in Switzerland (in the case of companies) or who have their place of residence in Switzerland (in the case of natural persons) may be subject to income taxation in Switzerland. If these tax residency conditions are not met, or if licence payments are not made to the Swiss branch but to a foreign entity of the licensor, licensing income to such foreign licensor is not taxed in Switzerland, even if such licensing income is generated in or from Switzerland. As a consequence, no double taxation issues arise in such circumstances.

In Switzerland, there are no withholding taxes on royalties or other licensing payments made by licensees. This applies regardless of whether the licensor is based in Switzerland or abroad.

- 31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?**

Swiss courts can render judgments in any foreign currency. According to the Swiss Court of Obligations contractual claims must be made in the contractual currency; that is, it would not be allowable to make a claim in Swiss francs when the licence agreement provides for payments in a different currency. However, if the contractual currency does not correspond to the national currency of the place of payment, the payment may be made in that national currency at the rate of exchange that applies on the day it falls due, unless literal performance is required by inclusion in the contract of the expression 'actual currency' or words to that effect (article 84 Swiss Code of Obligations).

Competition law issues

- 32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?**

According to article 3(2) of the Federal Cartel Act such Act shall 'not apply to effects on competition resulting exclusively from the legislation concerning intellectual property', except that 'import restrictions based on the legislation regarding intellectual property' shall be subject to the Cartel Act. While the exact effects of this provision are unclear, the Swiss Competition Commission, backed up by the modern legal doctrine – advocates that such provision shall be interpreted restrictively. Licensing agreements are generally deemed to be subject to the general competition law rules.

The Cartel Act regulates binding and non-binding arrangements (including gentleman's agreements) and concerted practices that have as their object or effect the restriction of competition in Switzerland. Such arrangements are only prohibited if they eliminate competition or appreciably restrict competition without being justified on grounds of economic efficiency. If the market share of any party to the agreement does not exceed 15 per cent, vertical agreements are assumed not to have an appreciable effect on the market (de minimis clause), unless they include any of the following: price fixing; restrictions on where or to whom a buyer can sell; restrictions on sales to the final consumer within a selective distribution system or cross-sales among members of the same selective distribution system; and restrictions preventing suppliers from selling components or spare parts to customers other than the distributors designated in the agreement.

There are no specific rules on licensing arrangements in Swiss competition law. Generally speaking, the guidelines of the European Commission on Technology Transfer Agreements, while not directly applicable or binding in Switzerland, have a certain weight in the assessment of potentially restricting licensing practices and the boundaries

set therein should therefore also be respected in agreements that have an impact on the Swiss market.

Furthermore, the abuse of a dominant position is prohibited. Exclusive cross-licence agreements between competing entities may result in a combined dominance, which in the case of abuse could be considered a breach of competition law.

Beneath the Federal Cartel Act, the Swiss Federal Act against Unfair Competition can also be relevant with respect to anticompetitive practices, although it applies a fair dealing standard rather than a market restriction approach. For instance, predatory pricing and refusal to deal or supply may be abusive under the Cartel Act (as abuse of a dominant position) or constitute a violation of unfair competition law under specific circumstances, or both.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

The duration of licence agreements is not restricted in a general manner and there is no strict prohibition on continuing a licence arrangement after expiration of the licensed rights. Licences for remuneration can be justified under competition law as long as either the relevant IP rights exist, or valuable know-how is shared. Under certain circumstances, a licence agreement can even continue for a certain time after expiration of the relevant rights, for instance if the exclusive licensee continues to benefit from a head start thanks to the fact that he or she was granted a licence before competitors could step in. However, there are limitations to the possibility to stipulate perpetual obligations under Swiss law (article 27 CC); see question 21.

Exclusive licences are generally permissible, except for exclusivity in customer allocation, which is a hard-core restriction. Exclusive cross-licensing arrangements between direct competitors may result in a collective dominant position with increased abuse potential.

Internet sales platforms are principally qualified as passive sales measures, unless the website specifically targets customers in an individual territory (active sale). Passive sales restrictions are considered hard-core restrictions of competition. Likewise, constraints having a similar effect, such as technical blocking measures, rerouting or currency restrictions are also unlawful.

There are no directly applicable rules on non-competition restrictions. Generally speaking, non-compete obligations are accepted in licence agreements. However, in line with the practice on general vertical restraints, the duration of such non-compete obligations should usually not exceed five years or one year after the termination of the agreement.

Likewise, there are no specific rules of Swiss competition law and no relevant practice on grant-back provisions. Such grant-back provisions will be scrutinised on a case-by-case basis if the relevant market thresholds are met, whereby exclusive grant-back provisions have a higher potential of restricting competition than non-exclusive obligations and should, therefore, not be included in licence agreements to avoid competition law issues.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

There is no case law of Swiss authorities in this respect. See questions 32 and 33 for some guidance on the assessment of the anticompetitiveness of such uses.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

It is very common to include indemnification provisions in licensing agreements governed by Swiss law. Such indemnification provisions are generally enforceable.

Insurance coverage for the protection of a foreign licensor may be available in support of an indemnification provision.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

It is common practice to exclude or limit liability for certain categories of damages, in particular consequential and indirect damages, respectively, or to limit the total amount of damages due under the licence agreement. Such liability disclaimers and limitations are generally enforceable with an important exception: any agreement purporting to exclude liability in advance for damages caused with unlawful intent or by gross negligence is void because of mandatory Swiss contract law.

In addition, disclaimers and limitations of liability for damages following from personal injury or death are considered not to be enforceable.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

The parties are free to terminate the licence in accordance with the contractual terms.

In this context it is, however, important to note that while Swiss law does not impose conditions or limit the right to terminate or not to renew a licensing relationship, it provides for a mandatory possibility to terminate any long-term contract prematurely for important reasons. Such important reasons require grounds that would render the continuation of the contract unacceptable and unreasonable. In general, the threshold for an important reason is high.

Generally speaking, under Swiss law no indemnity or other form of compensation is due upon termination or non-renewal of a licence agreement. However, in very specific cases, agency law, which provides for a mandatory compensation under certain circumstances (article 418u Swiss Code of Obligations) may be applicable by analogy if the factual and economic circumstances of the licensing setup are comparable to an agency setup, namely if the licensee is integrated in the distribution organisation of the licensor and invests in the extension of the customer base without being able to retain such customers upon termination of the agreement. The Federal Supreme Court recently ruled that these conditions were fulfilled in a case involving an exclusive distribution agreement (in an older judgment it had generally denied the applicability of the agency rules on exclusive distribution agreements). It has not yet been decided whether article 418u Swiss Code of Obligations may also be applicable to franchise agreements, but in view of the Supreme Court's recent judgment it appears likely that the compensation requirement may also be extended to franchising setups on a case-by-case basis.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

As a result of the termination or expiration of a licence agreement, the performance of any sub-licence granted by the licensee becomes impossible. As a result, the sub-licensee can claim damages for non-performance from the sub-licensor (ie, licensee). If the sub-licence agreement is conditional upon the main licence agreement, it automatically ends upon termination or expiration of such main licence.

A contractual provision in the sub-licence agreement alone would be insufficient to address this issue and would have no effect on the main licensor.

The parties can, however, validly agree in the main licence agreement that the licensor acknowledges the validity of any sub-licences validly granted by the licensee even after expiration or termination of the main licence agreement. In such case, the sub-licensee can rely upon this provision of the main licence agreement as a defence against the licensor. Such provisions should be drafted with caution and indicate whether the sub-licences remain valid in all cases (including, eg,

termination for material breach by the licensee) or whether they remain valid only upon termination at will or expiration by one of the parties.

The parties can also agree in the main licence agreement that all sub-licence agreements in force at the time of the termination or expiration of the main licence agreement are assigned to the licensor. In the latter case, the sub-licensee's consent (which can be given in the sub-licence agreement) is necessary for such assignment to be valid.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

A licence agreement does not automatically end with the licensee's bankruptcy. However, the insolvency administrator can decide whether or not it wants to continue to perform the licence agreement. If he or she chooses not to perform the licence agreement, the agreement is terminated and the licensor's interest under the agreement will be transformed into a monetary claim (article 211 Swiss Federal Statute on Debt Enforcement and Bankruptcy).

The bankruptcy of the licensee may often be an important reason for the licensor to terminate the licence agreement, even if such termination possibility has not been explicitly stipulated in the agreement (see question 37). In any event, the parties are free to provide for a contractual termination right by the solvent party in the event bankruptcy proceedings are opened upon the other party.

If the licence agreement is terminated upon bankruptcy of the licensee, be it by the licensor or because the licensee's insolvency administrator chooses not to continue to perform the agreement, any sub-licence agreements will also come to an end (see question 37).

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

Under Swiss law, the parties to an international licensing arrangement are free to choose the governing law. The Federal Statute on International Private Law imposes very few limitations to the parties' freedom of choice:

- those mandatory provisions of Swiss law that, by reason of their special aim, are applicable regardless of the law agreed upon by the parties, remain applicable regardless of the parties' choice of law; this applies in particular with respect to Swiss competition law, which is applicable if the licence agreement has effects in Switzerland; and

- the application of provisions of foreign law is excluded if such application leads to a result that is incompatible with Swiss *ordre public* (public order), which will seldom be the case in a licensing context).

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

The parties can contractually agree to arbitration in any jurisdiction and under any arbitration rules.

International arbitration awards rendered in Switzerland can be challenged before the Federal Supreme Court as sole instance if the parties have not validly opted out of the setting-aside procedure. Statistics show a very arbitration-friendly stance and efficient decision-making by the Federal Supreme Court.

To date, the question whether class action arbitration is allowed under Swiss law remains untested in Swiss courts. Equally, the question of whether a contractual waiver of class action arbitration would be enforceable is unknown. In any event, nothing in Swiss statutory law explicitly precludes class action arbitration, but such proceedings might be invalidated for due process concerns and for a lack of equal treatment of the parties. In addition, the award may not be enforceable against or on behalf of all class members.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

A distinction must be drawn with respect to foreign judgments and arbitral awards rendered in other jurisdictions:

Court judgments

Switzerland is a party to a number of bilateral and multilateral treaties governing the recognition and enforcement of foreign judgments.

Judgments rendered by courts of EU member states as well as of Norway and Iceland are recognised and enforced under the rules of the Lugano Convention of 30 October 2007. Under such Convention, decisions that are enforceable in their country of origin are also recognised and enforceable in Switzerland. With very few exceptions, a Swiss court will recognise such decision incidentally without reviewing the competence of the deciding court or the merits of the foreign decision.

The Lugano Convention does not limit the remedies that can be enforced. Therefore, any remedy ordered by a court of a Convention member state can be enforced in Switzerland (except where a remedy would be in manifest contradiction to Swiss public order). Notably, not only final judgments but also preliminary injunctions (except for

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ex parte injunctions) are, in principle, enforceable under the Lugano Convention, although their enforcement may raise complex issues in practice.

Switzerland is also a party to a number of bilateral treaties on recognition and enforcement in civil and commercial matters. Where there are no applicable treaties, the recognition and enforcement of foreign judgments is governed by the Swiss Private International Law Act (PILA). According to the PILA, a foreign court decision is recognised if it has been rendered by a competent foreign authority, it is final, and it complies with fundamental material and procedural legal standards, as defined by the PILA. If these conditions are met, a Swiss court will recognise the decision incidentally without further reviewing the merits of the decision. The prevailing view is that under the PILA a judgment must be final to be enforceable, which excludes the enforceability of foreign preliminary injunctions in Switzerland (except where rendered by a member state of the Lugano Convention).

Arbitral awards

Switzerland is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). The recognition and enforcement of arbitral awards in Switzerland is governed by the rules of the New York Convention; this applies regardless of the place where an arbitral award was rendered.

It is noteworthy that disputes regarding the validity of licensed intellectual property are also arbitrable in Switzerland. Hence, an arbitral award declaring a registered intellectual property right invalid will be recognised and enforced by the Swiss Institute for Intellectual Property in the same manner as a judgment or order to the same effect.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available in Switzerland. Other than in some other jurisdictions, public policy considerations are not taken into account when determining whether an injunction may be granted. Rather, if the breach of the licence agreement can be remedied by an injunction and the claimant actually requests an injunction, the court has no judicial discretion to deny the grant of such injunction. There are no exemptions for particular subject matter (such as pharmaceuticals) or particular claimants (such as non-practicing entities).

However, the parties to a licence agreement are free to contractually waive the right to request injunctions to remedy a breach of the licence agreement. In this case, the waiver should be explicit and limited in time (eg, for the duration of the agreement).

Likewise, it is common practice to exclude liability for certain categories of damages, in particular consequential and indirect damages, respectively, or to limit the total amount of damages due under the licence agreement. However, an important limitation applies with respect to damages caused with unlawful intent or by gross negligence where any agreement purporting to exclude liability in advance is void because of mandatory Swiss law (see questions 35 and 36).

Taiwan

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Overview

- 1 **Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

No laws restrict the establishment of a foreign business entity that wishes to enter into a licence agreement with local entities. In other words, a foreign licensor may conclude a licence agreement with local entities without establishing a subsidiary or branch office in Taiwan. Like a general foreign investor, a foreign licensor wishing to establish a business entity or joint venture in Taiwan shall comply with general requirements provided in the laws of Taiwan. Article 8 of the Statute for Investment by Foreign Nationals (SIFN) provides the application forms and documents for applying for investment in Taiwan.

The procedures for applying for the total amount of investment are provided in the Regulations Governing Verification of Investment Amount by Foreign Nationals. Prohibitive and restrictive requirements are provided in article 7 of the SIFN: the investor is prohibited from investing in the industries that may negatively affect national security, public order, good customs and practices or national health, and those that are prohibited by the law.

Should the foreign investor desire to invest in an industry in which investment is restricted by law, he or she shall obtain approval or consent from the competent authority in charge of such industry.

Kinds of licences

- 2 **Identify the different forms of licence arrangements that exist in your jurisdiction.**

No specific laws or regulations provide the forms of licence arrangements. A licence agreement is a kind of contract under the Civil Code, which mainly provides that a juridical act (contract) that is not against public policy or morals is effective. As a result, an agreement involving any kind of intellectual property arrangements shall be acceptable under the laws of Taiwan.

Law affecting international licensing

- 3 **Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Generally speaking, a licence agreement, whether international or local, can be effectively made once it is legally concluded between parties under the Taiwan laws relating to contract. However, the Guidelines on Technology Licensing Arrangements promulgated by the Fair Trade Commission (amended on 24 August 2015) set forth restrictions on some terms if such terms may lead to restrictive competition or unfair competition in the market.

The restrictions on such terms include:

- restrictions on research and development, manufacture, use, sale, or adoption of competitive technology on competing goods;

- restrictions on the use of the licensed technology or the trading counterparts of a licensee if it is to achieve the goal of market segmentation or if such restrictions are irrelevant to the scope of licensing;
- purchase or use of other patents or know-how not needed by the licensee;
- mandatory requirements that the licensee assign back exclusively to the licensor any improvements to the licensed patent or know-how;
- restrictions on the licensee's free use of the licensed technology or required payment of fees or royalties after extinction of the patent or after the know-how has been publicly disclosed;
- restriction on the price at which the licensee may sell the goods manufactured with the licensed technology to a third party;
- limitation on challenging the validity of the licensed technology;
- refusal to provide the licensee with information on the content, scope or valid term of a patent;
- restrictions involving distinctions between regions in which the licensing is applicable within the territory of Taiwan during the valid term of a patent or regional restrictions on the use of know-how before the know-how is publicly disclosed or loses its status as a trade secret;
- ceilings of the quantity of goods that may be manufactured or sold by the licensee or the number of times the know-how or patented technology may be used;
- requirements that the licensee must sell goods through the licensor or a person designated by the licensor, etc.; and
- requirements that the licensee pays licensing fees based on the quantity of the goods manufactured or sold irrespective of whether the licensee used the licensed technology.

- 4 **What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

Pre-contractual disclosure requirements are not imposed on a licensor in favour of its licensees, nor is pre-registration required with respect to any international licensing rights to be granted in Taiwan. However, article 62 of the Patent Act provides that parties that performed the patent licensing and failed to have the licensing entered and registered by the Registrar Office shall have no locus standi against any third party. The same requirements for trademark rights and circuit layout rights are provided in the Trademark Act and the Integrated Circuit Layout Protection Act. In other words, although the licensors and licensees of patents, trademarks and circuit layouts shall be legally bound by their licence agreements without first conducting any disclosure registration, such licence agreement cannot be asserted against any third party, unless it has been registered with the Registrar Office. The Registrar Office is the Intellectual Property Office of the Ministry of Economic Affairs.

Further, the Plant Variety and Plant Seed Act has the same locus standi provision on plant variety rights. Its relevant registrar office is the Council of Agriculture.

- 5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?**

The Fair Trade Act governs antitrust matters and may be related to the obligations affecting an international licensing relationship. The Fair Trade Act provides that this Act shall not apply to any proper conduct in connection with the exercise of rights pursuant to the provisions of the Copyright Act, Trademark Act or Patent Act. However, in the event that such licence is considered to have possible or actual restraint of competition or unfair competition in the relevant markets, such licence agreement would likely constitute violation of the Fair Trade Act and the licensor shall be subject to civil, administrative or criminal liabilities.

- 6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?**

No specific laws or regulations make such a distinction.

Intellectual property issues

- 7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?**

Taiwan is neither a party to the Paris Convention for the Protection of Industrial Property nor a party to the Patent Cooperation Treaty (PCT). However, since 1 January 2002, Taiwan, under the name of 'Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu' (also called 'Chinese Taipei'), has been a member of the WTO, of which the TRIPs Agreement is Annex 1C of the Marrakesh Agreement Establishing the World Trade Organization.

- 8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?**

Paragraph 6.2(7) of the Guidelines on Technology Licensing Arrangements, promulgated by the Fair Trade Commission, provides that licensing arrangements shall not include certain conditions that are likely to lessen competition or to impede fair competition in relevant markets. One such condition is the restriction on the licensee's right to challenge the validity of the licensed technology. Such a clause in a licence agreement that prohibits the licensee from contesting the validity of the licensor's intellectual property rights (whether a foreign or local licensor) if such prohibition has the effect of lessening competition or impeding fair competition in relevant markets shall violate the Fair Trade Act and the licensor may be subject to civil, administrative or criminal liabilities.

- 9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?**

Paragraph 6.2(5) of the Guidelines on Technology Licensing Arrangements (the Guidelines) prohibits a licensing arrangement that restricts the licensee from free use of the technology of a patent or bestows on the licensor the right to claim royalties for the licence after 'extinction' of a patent, if such restriction is likely to lessen competition in relevant markets. This paragraph does not define the word 'extinction'. However, a proper interpretation may refer to both 'invalidity' and 'expiry of registration' in relation to 'extinction'.

On the other hand, paragraph 5(4) of the Guidelines provides that for the licensed technology already used, the licensee may be required to continue to pay a fee after the expiration of a patent, where the royalty is paid in instalments or on a post-paid (running royalty) basis, unless such requirement is found improper.

Paragraphs 6.2(5) and 5(4) of the Guidelines only refer to 'patent'. They do not include other intellectual property. Therefore, a licence agreement restraining the licensee from the use of the technology or

intellectual property other than a patent, or bestowing on the licensor the right to claim royalties after the invalidity or expiry of registration of such other technology and intellectual property, is still valid, unless such licence would create possible or actual restraint of competition or unfair competition in the relevant market, which makes the Fair Trade Commission treat such licence in the same manner as a patent.

- 10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?**

Patents, trademarks, circuit layouts and plant varieties are the rights that need registration with the appropriate government agency in accordance with the Patent Act, the Trademark Act, the Integrated Circuit Layout Protection Act and the Plant Variety and Plant Seed Act. However, no original registration, evidence of use or other requirements unique to foreigners is necessary prior to registration.

- 11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?**

No specific laws or regulations prohibit licensing unregistered trademarks, patents, circuit layouts and plant varieties. However, the licensed unregistered trademarks, patents, circuit layouts and plant varieties will not be protected by the Trademark Act, Patent Act, Integrated Circuit Layout Protection Act or the Plant Variety and Plant Seed Act. In addition, should there exist other registered trademarks, patents, circuit layouts or plant varieties in the Taiwan jurisdiction, the use of such licensed unregistered trademarks, patent, circuit layouts and plant varieties may infringe on those registered trademarks, patents, circuit layouts and plant varieties.

Copyright does not need registering with the appropriate government agency under the Copyright Act. Therefore, copyright can be licensed without any registration.

- 12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?**

Generally, there is no particular requirement for the validity of an intellectual property licence.

The Patent Act, the Trademark Act, the Integrated Circuit Layout Protection Act and the Plant Variety and Plant Seed Act provide that parties that perform licensing of a patent, trademark, circuit layout or plant variety and fail to have the licensing entered and registered by the correct registrar office shall have no locus standi against third parties. As such, although the licensor and licensee of the patent, trademark, circuit layout or plant variety shall be legally bound by their licensing agreements, such agreement cannot not be asserted against a third party, unless registered with the Registrar Office.

The above requirement for registration with respect to the effect of locus standi applies to the pledge on the patent, trademark, circuit layout and plant variety in accordance with the above four acts.

- 13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?**

Generally, a foreign owner or licensor of intellectual property can institute proceedings against a third party for infringement in Taiwan without first obtaining the licensee's consent or joining the licensee as a party to the proceedings.

As regards the institution of proceedings by a licensee, the Patent Act, Trademark Act, Copyright Act, Integrated Circuit Layout Protection Act and Plant Variety and Plant Seed Act have provisions governing this issue. However, their provisions vary slightly.

The Plant Variety and Plant Seed Act provides that an exclusive licensee may take legal action against third-party infringement. The Patent Act and Trademark Act have the same provision, but further

provide that the exclusive licensee may take such legal actions unless otherwise provided for in the licence agreement. As such, the licence agreement may prohibit the licensee of a patent or trademark from instituting such proceedings.

The Integrated Circuit Layout Protection Act also provides that an exclusive licensee may take legal action against third-party infringement. However, such actions shall be subject to three conditions: that the owner of the integrated circuit rights has been notified of the actions to be taken by the licensee, that the owner fails to take action and that there is no contrary provision in the licence agreement. As such, if the licence agreement is silent on this issue and the owner of the integrated circuit rights does not institute proceedings against an infringer after it has been informed of the licensee's proposed actions, the licensee may institute such proceedings itself.

The Copyright Act provides that an exclusive licensee may exercise rights in the capacity of economic rights holder and perform litigious acts in its own name. The economic rights holder may not exercise rights within the scope of an exclusive licence.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

The issue of sub-licensing by a trademark or service trademark licensee is provided for in article 40 of the Trademark Act as follows:

- unless otherwise provided in a licensing contract, an exclusive licensee is entitled, within the scope of the licence, to sub-license the registered trademark to another person; and
- a non-exclusive licensee shall not sub-license the registered trademark to another person, unless the trademark owner or the exclusive licensee consents to the sub-licensing.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Taiwan is a 'first to file' jurisdiction. When two or more applications are filed for the same invention, only the application filed first may be granted an invention patent, except if the priority date claimed by the later application is earlier than the filing date of the earlier application. Further, article 59.1(3) of the Patent Act provides that the effect of an invention (or a utility model) patent right shall not extend to situations where, prior to filing for a patent, the invention has been used in this country, or where all necessary preparations have been completed for such purpose, provided, however, that this provision shall not apply where knowledge of such invention was obtained from the patent applicant within six months prior to applying for the patent and the patent applicant has made a statement concerning the reservation of his or her patent right therein.

No specific laws or regulations prohibit a licensor from licensing the use of an invention subject to a patent application but in respect of which the patent has not been issued.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

If a software invention (either process or the combination of software and device) includes 'technical character', such an invention will be a patentable subject matter in Taiwan. The 'technical character' is defined as a way to solve a problem, which is not limited to the technical problem but may include any type of application problems or life issues.

Business processes or methods per se are not patentable. However, if a business process or method is implemented by utilising the technologies in a computer, namely, the technology at issue is not the business process or method itself but is an execution method that uses the hardware of a computer so as to achieve a business purpose or to perform a business function, it is patentable. If said technical means has further technical character instead of merely using a computer resource, said technical means is patentable.

For example, 'bidding activity' is a purely commercial activity and is not a statutory subject matter for patent protection. Nevertheless, if an invention is related to 'a utilisation of network technology to

achieve bidding activity', such an invention may be patentable. In addition, if said network technology is not merely a utilisation of hardware resource, such network technology will be patentable.

Biological material can be protected by patents. 'Biological material' denotes any material containing genetic information and capable of reproducing itself or being reproduced in a biological system, which includes carriers, plasmids, bacteriophages, viruses, germs, fungi, cell strains of animals or plants, tissue cultures of animals or plants, protozoa, unicellular algae, etc.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

Trade secrets are governed by the Trade Secret Act. According to article 2 of this Act, the term 'trade secret' shall mean any method, technique, process, formula, programme, design or other information that may be used in the course of production, sales or operations, and also meets three requirements:

- it is not known to persons generally involved in this area;
- it has economic value, actual or potential, owing to its secretive nature; and
- its owner has taken reasonable measures to maintain its secrecy. Infringement of trade secrets may incur civil liabilities pursuant to the Trade Secret Act and the Civil Code and criminal liabilities pursuant to the Criminal Code.

With respect to 'know-how', a definition provided in paragraph 2(3) of the Guidelines on Technology Licensing Arrangements promulgated by the Fair Trade Commission is similar to that in the above Trade Secret Act: know-how means 'methods, technologies, manufacturing processes, formulas, computer programs, designs, or other types of information that may be used in production, marketing, or management' that meet the three requirements as set forth in article 2 of the Trade Secret Act. Although this definition is provided by the Guidelines, which are not laws and that are for the purpose of antitrust issues, it is still acceptable by the courts.

Under articles 195-1, 242.3 and 344.2 of the Code of Civil Procedure, the Taiwan courts treat trade secrets and know-how as follows:

- where a party's means of attack or defence involves the privacy or a business secret of either party or a third person, the court may, on motion, order the hearing not be held in public;
- where the documents in the dossier involve the privacy or business secret of the party or a third person and a grant of the application for inspecting, copying or photographing such documents will likely result in material harm to such person, the court may, on motion or on its own initiative, deny or restrict such application; and
- a party has the duty to disclose to the other party the documents that are created regarding matters relating to the action; provided, however, that where such documents involve the privacy or business secret of a party or a third person and the disclosure may result in material harm to such party or third person, the party may refuse to produce such documents.

Article 14 of the Trade Secrets Act and article 9 of the Intellectual Property Case Adjudication Act have similar provisions as articles 195-1 and 242.3 of the Code of Civil Procedure. Further, article 11 of the Intellectual Property Case Adjudication Act provides that where a party to a proceeding holds trade secrets, the court may, upon motion, issue a confidentiality preservation order (CPO) upon the other party and its agents. The person subject to such CPO shall not use the trade secrets for purposes other than those related to such proceeding, nor shall he or she disclose the said trade secrets to those not subject to the CPO.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

According to paragraph 5(7) of the Guidelines on Technology Licensing Arrangements, promulgated by the Fair Trade Commission, it is acceptable in a licence agreement to have stipulations that, during

the licensing period or after the expiration of the term of the licensing arrangement, impose on the licensee the obligation to maintain the secrecy of any know-how that retains the status of a trade secret, unless such requirement is found improper.

No specific laws or regulations govern the disclosure or use of improvement contributed by the licensee. However, if a licence agreement prohibits or restricts the licensee from such disclosure or use, such prohibition or restriction is valid unless the Fair Trade Commission holds that the licensor in such licence agreement is considered to have possible or actual restraint of competition or unfair competition in the relevant markets.

19 What constitutes copyright in your jurisdiction and how can it be protected?

According to the Copyright Act, the author of a work shall enjoy copyright upon completion of the work without any registration. A 'work' means a creation that is within a literary, scientific, artistic or other intellectual domain, including oral and literary work, musical work, dramatic and choreographic work, artistic work, photographic work, pictorial and graphical work, audiovisual work, sound recordings, architectural work and computer programs.

Copyright is protected through the imposition of civil and criminal liability on the infringer. In other words, the copyright holder may demand removal of infringement of its rights, demand prevention of the infringement where there is likelihood of infringement and claim for damages against the infringer. Also, the copyright holder may file a criminal complaint against the infringer with the court.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

Yes, it is advisable for the licensor to have such provision.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

No specific laws or regulations prohibit the validity of 'perpetual' software licences.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

There are no legal requirements to be complied with prior to granting software licences. No specific laws or regulations impose import or export restrictions on software.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

Article 59.1 of the Copyright Act provides that the owner of a legal copy of a computer program may alter the program where necessary for utilisation on a machine used by such owner, provided this is limited to the owner's personal use. As such, the licensee can own the modifications to the licensed software on the condition that the altered software is for the licensee's personal use.

However, improvements to the licensed software and modifications that are not for the licensee to use on its own machine may not necessarily belong to the licensee. The ownership of such improvements and modifications shall be decided by both parties' agreement.

In the absence of an agreement, the software licensor is not obligated to provide bug fixes, upgrades and new releases.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

Article 80-2.1 of the Copyright Act provides that technological protection measures employed by copyright owners to prohibit or restrict

others from accessing works shall not, without legal authorisation, be disarmed, destroyed or by any other means circumvented. As such, a software licensor may include a process or routine to prohibit or restrict illegal access to the software. Under the principle of 'freedom of contract', it is acceptable for the licensor to include a clause in a licence agreement providing such disabling process or routine.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

So far, there are no such court precedents.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

No specific laws or regulations govern this issue. However, if the software can send the user's message to other computer systems without knowledge of the user, it might constitute the following restrictions provided by some laws:

- the Personal Information Protection Act provides that a non-government agency shall not collect or process personal information unless, among others, there is a contract between the parties or a written consent made by the person whose personal information is to be collected or processed. Violation of this provision will incur civil and criminal liabilities;
- the Trade Secrets Act provides that acquiring a trade secret by improper means shall incur civil liability. The term 'improper means' shall mean theft, fraud, coercion, bribery, unauthorised reproduction, breach of an obligation to maintain secrecy and inducement of others to breach an obligation to maintain secrecy. The Trade Secrets Act further provides that any person committing an act falling under any of the following circumstances for the purpose of an illicit gain for himself, herself or a third person, or inflicting a loss on the holder of a trade secret, shall be sentenced to a maximum of five years' imprisonment or short-term imprisonment. In addition thereto, a fine of between NT\$1 million and NT\$10 million may be imposed for:
 - acquiring a trade secret by an act of theft, embezzlement, fraud, threat, unauthorised reproduction, or other wrongful means, or using or disclosing a trade secret so acquired;
 - committing an unauthorised reproduction, usage or disclosure of a trade secret known or possessed;
 - failing to delete or destroy a possessed trade secret as the trade secret holder orders, or disguising it; and
 - knowingly acquiring, using or disclosing a trade secret known or possessed by others under the circumstances prescribed in the preceding three points; and
- if the information sent by the software is the 'classified national security information' set forth in the Classified National Security Information Protection Act, it shall be subject to criminal liability.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

So far, there are no such court precedents, and no legal developments are available.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

Only the Guidelines on Technology Licensing Arrangements, promulgated by the Fair Trade Commission, govern the payment of royalties.

According to paragraph 5(4), in principle, it is acceptable under the Fair Trade Act for a licence agreement to provide that the licensee shall continue to pay fees after the expiration of the patent term for use already made of the licensed technology and to provide that, in the event of public disclosure of the know-how through no circumstance imputable to the licensor, the licensee must continue to pay agreed fees, unless:

- such arrangement is considered to cause possible or actual restraint of competition or unfair competition in the relevant markets (paragraph 6.2(5));
- under the licence agreement, the licensee shall pay licensing fees based on the quantity of a particular type of goods manufactured or sold irrespective of whether the licensee used the licensed technology, which is likely to restrain competition or impede fair competition in relevant markets (paragraph 6.2(12)); or
- the licensing arrangement, without justification, gives discriminatory treatment to licensees with regard to licensing fees, where such discriminatory treatment would be likely to restrain competition or impede fair competition in relevant markets (paragraph 6.4).

No specific laws or regulations require regulatory approval of the rate, amount or interest of royalty payable by a licensee.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

Since 1987, the Central Bank of China, Taiwan (CBC), has deregulated the foreign exchange controls on capital movements. At present, total annual remittance not exceeding NT\$5 million by a natural person and total annual remittance not exceeding NT\$50 million by a juridical person may proceed directly through authorised banks by filling out relevant foreign remittance declaration forms. If the remittance exceeds the aforementioned amount, then such remittance requires the CBC's prior approval.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

In general, royalties are subject to income tax of 20 per cent. If the licensor is located in a country that has tax treaties with Taiwan, the tax rate could be reduced to 10 per cent or 15 per cent. Double taxation could be avoided if an applicable tax treaty exists. According to the Income Tax Law, all income generated or originated in Taiwan is subject to income tax.

Nevertheless, the Rules Governing the Applications for Exemption from Income Tax on Royalty and Technical Service Fees Collected by Foreign Profit-Seeking Enterprises from Manufacturing Industries, Technical Service Industries and Power-Generating Industry, promulgated by the Ministry of Finance, provide that when a foreign enterprise licenses to a Taiwanese manufacturing enterprise the right to practise or use a patent, trademark or know-how (or all of the above), the royalties that the foreign enterprise receives under the arrangement could be exempted from income tax, provided that the exemption is approved by the Ministry of Economic Affairs.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

Yes, courts in Taiwan can render a judgment awarding the payment in a foreign currency.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Trade restriction is governed by the Fair Trade Act. Article 20 of this Act provides that five kinds of conduct, each likely to lessen competition or to impede fair competition, must not be undertaken by any enterprise. The forbidden acts are as follows:

- causing another enterprise to discontinue supply, purchase or other business transactions with a particular enterprise for the purpose of injuring such particular enterprise;

- discriminating against another enterprise without justification;
- preventing competitors from participating or engaging in competition by inducement with low price, or other improper means;
- causing another enterprise to refrain from competing in price, or to take part in a merger, concerted action, or vertical restriction by coercion, inducement with interest or other improper means; and
- limiting its trading counterparties' business activity improperly by means of the requirements of business engagement.

Because the licence of intellectual property is unique in terms of trade restriction, the Fair Trade Commission promulgated the Guidelines on Technology Licensing Arrangements, which govern and categorise the types of restrictions as well as their legal status.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

Restrictions on duration, exclusivity, grant-back and non-competition in a licence agreement relating to patents and know-how are governed by the Guidelines on Technology Licensing Arrangements promulgated by the Fair Trade Commission.

Duration

It is acceptable in a licence agreement to have stipulations that restrict the term of a licence arrangement that falls within the term of validity of the patent itself or restrict the term of such licence arrangement prior to public disclosure of know-how that, through under no circumstances imputable to the licensor, has been disclosed and has lost its status as a trade secret, unless such restriction is found improper (paragraph 5(2)).

Exclusivity

A licence agreement shall not include certain conditions that are likely to lessen competition or to impede fair competition in relevant markets, such as:

- restrictions on the licensee with respect to scope of use of the licensed technology or trading counterparts in order to achieve the goal of market segmentation or other goals irrelevant to the purpose of licensing (paragraph 6.2(2)); or
- requirements that the licensee must sell goods through the licensor or a person designated by the licensor (paragraph 6.2(11)).

Internet sales prohibitions

No specific laws or regulations prohibit a licence agreement from the restriction of internet sales. However, if a technology licensing agreement is between parties who are in competition, and through such agreement they jointly restrict trading regions, thus mutually restricting each others' business activities in a manner sufficient to influence the functions of the relevant market, such technology licensing agreement should be prohibited (paragraph 6.1).

Non-competition

A licence agreement shall not include certain conditions that are likely to lessen competition or to impede fair competition in relevant markets, such as the restriction on competitive activities by the licensee with respect to research and development, manufacture, sale of competing goods or utilisation of competing technology during or after the expiration of the term of the licensing arrangement (paragraph 6.2(1)).

Grant-back

It is acceptable in a licence agreement to have the stipulation that the licensee shall grant a non-exclusive licence to the licensor with respect to any improvements in, or new applications of, the licensed technology, unless such restriction is found improper (paragraph 5(5)). The licence agreement will not be held void merely owing to the lack of consideration.

A licence agreement shall not include a mandatory requirement that the licensee assign back exclusively to the licensor any improvements to the licensed patent or know-how that is likely to lessen competition or to impede fair competition in relevant markets (paragraph 6.2(4)).

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

Yes, a prominent case related to a concerted action on royalties of patent licence was held by the Intellectual Property Court (IP Court) in June 2016. Three companies respectively owned some patents related to CD-R. They put these patents in a pool and authorised one of them to manage the patent pool. Any licence of such patents shall be made through such patent pool. As the CD industry became in recession, licensees requested the licensors to lower the amount of royalties. The three patent owners took a concerted action, declining to make any adjustment in the royalties. They were therefore fined by the Fair Trade Commission. Later, the IP Court held that the three patent owners' joint maintenance of royalty amount was improper and anticompetitive, and sustained the Fair Trade Commission's imposition decision.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are commonly used in contracts in Taiwan and they are enforceable. Insurance coverage for the protection of a foreign licensor is available in support of an indemnification provision.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

The parties can contractually agree to waive or limit certain types of damage. Responsibility for intentional or gross negligent acts, however, shall not be waived in advance.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

No specific laws or regulations impose such conditions. However, under the Civil Code of Taiwan, where there is a definite term for an agreement, termination without cause before the expiration may constitute breach of contract and the breaching party shall indemnify or compensate the other party. Where there is no definite term for an agreement, a party complying with the terms and conditions for termination, if any, can terminate the agreement without being liable for indemnity or compensation.

There is no specific commercial agency law in Taiwan. The Civil Code of Taiwan governs the general transaction relationships, which shall include the licensing relationships. Therefore, a party terminating the licence agreement before its expiration or without complying with the terms and conditions for termination shall indemnify or compensate the licensee.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

If a licence agreement grants a sub-licence but fails to address the period of time for such sub-licence, the termination or expiration of the licence agreement will mean that the sub-licensee loses the right to use the technology previously sub-licensed by the licensee. In other words, the licensor may, after the termination or expiration of the licence agreement, demand that the sub-licensee stop using the sub-licensed technology, but the sub-licensee may in turn claim its loss against the sub-licensor in accordance with the sub-licence agreement.

It is acceptable under the Taiwan laws that the parties can contractually agree to let the sub-licence maintain its effective after the termination or expiration of the licence agreement.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

The outstanding royalties are one portion of the debtor's assets, which the creditors may proportionately parcel out. The royalties not yet due shall become due upon the court ruling granting a petition for bankruptcy. As such, the licensee's creditors (eg, licensor) can parcel out the royalties payable and not yet payable in accordance with procedures in the Bankruptcy Act.

The Bankruptcy Act in Taiwan does not govern the licence relationship. However, it is acceptable for a licence agreement to provide that in the event that a petition for bankruptcy is filed with the court by either the licensee or any of its creditors, the licensor has the right to immediately terminate the licence agreement without compensating the licensee.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

The parties to an international licensing arrangement may freely choose the governing laws and no specific laws or regulations provide any restrictions on it.

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

The parties can contractually agree to arbitration of their disputes and the arbitration proceedings can be conducted in either Taiwan or any other jurisdiction.

No typical class action either initiated in the court or in the arbitration is provided in the Taiwan laws. A similar action is provided in the Code of Civil Procedure (CCP) that multiple parties, who have common interests, may appoint one or more persons from themselves to sue or to be sued on behalf of the whole parties. Because the right to litigation/arbitration (ie, the 'right to suit') is protected by the Constitution, the parties cannot contract to preclude either party's right to the aforementioned action under the CCP.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

A foreign judgment or arbitral award, after an application for recognition has been granted by the court, shall be enforceable. A foreign judgment shall be recognised, except in any of the following circumstances:

- where the foreign court lacks jurisdiction pursuant to the Taiwan laws;
- where a losing defendant failed to take actions in the court proceedings, unless the notice or summons of the initiation of action had been legally served in a reasonable time in the foreign country or had been served through judicial assistance provided under the Taiwanese laws;
- where the performance ordered by such judgment or its litigation procedure is contrary to Taiwanese public policy or morals; or
- where no mutual recognition exists between the foreign court and Taiwan.

Taiwan is not party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. However, the Taiwan court may still grant an application for enforcement of a

foreign arbitral award if the country where the arbitral award is made reciprocally recognises the arbitral awards of Taiwan.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief in Taiwan includes four kinds of actions: permanent injunctions, provisional injunctions with provisional attachment, preliminary injunctions and temporary restraining orders. Because each of them is a type of 'right to suit', which is protected by the Taiwan Constitution, the injunction relief may not be waived contractually.

It is acceptable for the parties to waive their entitlement to claim specific categories of damages in an arbitration clause.



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Turkey

E Seyfi Moroğlu and Işık Özdoğan

Moroğlu Arseven

Overview

- 1 **Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

Law No. 4875 on Direct Foreign Investment (Foreign Investment Law) applies to foreign investors who make direct investments in Turkey. These include making investments via establishing a company with or without a Turkish partner, acquiring shares of an existing company, or acquiring assets such as buildings, factories, manufacturing facilities, etc.

In principle, the Foreign Investment Law puts domestic and foreign investors on an equal footing. Foreign investors are subject to the same treatment as local investors. There are no additional permits or approvals applicable to foreign investors.

However, foreign investments within the scope of certain pieces of legislation are subject to restrictions, including media, energy and civil aviation.

Besides general protectionary provisions in contract law and directly applicable rules regarding technical norms, no restrictions apply to local or foreign licensors entering into a (local or international) licence agreement, without establishing a subsidiary or branch office.

Establishing all types of business entities involves making a filing to the relevant commercial registry and a registration process. Some sectors require permits and licences. However, specific requirements depend on the sector and permit type, so must be evaluated on a case-by-case basis.

Kinds of licences

- 2 **Identify the different forms of licence arrangements that exist in your jurisdiction.**

Being a *sui generis* type of agreement, and since the principle of freedom of contract is accepted in Turkish law, licence agreements contain features of various different agreements. No specific regulation defines or limits licensing types.

Licensing activities permitted by Law No. 5846 on Intellectual and Artistic Works (Turkish Copyright Act), Decree-Law No. 551 Pertaining to the Protection of Patent Rights and Utility Models (Decree-Law on Patents), Decree-Law No. 554 Pertaining to the Protection of Industrial Designs (Decree-Law on Industrial Designs) and Decree-Law No. 556 Pertaining to the Protection of Trademarks (Decree-Law on Trademarks) are listed below, in a non-exhaustive manner:

- licensing of intellectual and artistic works (article 48(2) of the Turkish Copyright Act): software licensing as well as celebrity and character licensing fall within the scope of this definition. The definition includes a wide range of elements for licensing activities;
- licensing of patents and utility models (article 86 of the Decree-Law on Patents);
- licensing of industrial designs (article 41 of the Decree-Law on Industrial Designs);

- licensing of trademarks (article 20 of the Decree-Law on Trademarks): licensing of trademarks and service marks fall within the scope of this definition;
- licensing of trade names: Turkish legislation does not provide any explicit provision regarding licensing of trade names. In practice, trade names are transferred together with the transfer of a commercial enterprise;
- licensing of know-how: Turkish legislation does not provide any explicit provision regarding licensing of know-how. However, certain definitions and qualifications for know-how licensing are provided within the scope of competition laws; and
- licensing of promotional elements: promotional elements may be defined as distinctive elements of goods or services (excluding trademarks) such as slogans, signs or distinctive packages.

Law affecting international licensing

- 3 **Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

There is no restriction on the subject and scope of licensing, except for limitations provided under the general law of obligations. Agreements are subject to the principle of freedom of contract.

Licensing agreements regarding patent and utility models, industrial designs and trademarks should be in writing (Turkish Copyright Act, Decree-Law on Patent and Utility Models, Decree-Law on Industrial Designs, and Decree-Law on Trademarks). The validity of other licensing agreements is not subject to any contractual form requirement.

Turkey is a party to various multinational conventions, such as the Paris Convention for the Protection of Industrial Property and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs). Therefore, in addition to the principles discussed in question 5, licensing agreements also enjoy protection under these multinational conventions.

- 4 **What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

There are no mandatory pre-contractual disclosures that a licensee or licensor must make. However, the following types of licences can be registered with the Turkish Patent Institute, in order to be claimed against bona fide third parties:

- trademarks (article 21(9) of the Decree-Law on Trademarks);
- patents (article 92(2) of the Decree-Law on Patents);
- utility models (articles 92(2) and 166 of the Decree-Law on Patents); and
- industrial designs (article 41 of the Decree-Law on Industrial Designs).

- 5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?**

Courts apply the following fundamental principles in any type of relationship, irrespective of the nature:

- good faith (*bona fide*) (article 2 of the Civil Code, No. 4721): ‘everyone must act in good faith while exercising their rights and fulfilling their obligations and abuse of a right will not be protected by the legal order’;
- (article 27 of the Code on Obligations, No. 6098): all agreements against public morality, public order, individual civil rights and mandatory provisions of the laws are void;
- (article 52 of the Code on Obligations No. 6098): every person must take necessary steps to mitigate damage and refrain from exercising their rights so as to help avoid an increase in damages;
- acting as prudent merchant (article 18(2) of the Turkish Commercial Code No. 6102 (TCC)): merchants must act as prudent businessmen during their commercial activities; and
- unfair competition rules (article 54–63 of the TCC): the TCC protects against unfair competition between competitors or providers and customers. Advertisements that are misleading and violate the *bona fide* principle are deemed to be unfair and against the law. Disclosure of another party’s business secrets is also deemed to be a breach of this rule.

- 6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?**

No legislation distinguishes between licences and franchises. Under Turkish legislation, both agreements are *sui generis* types of agreements. However, legal definitions and qualifications provided under case law and literature (which are deemed to be sources of private law in the absence of written legislation), help distinguish between licences and franchises. Turkey does not have a franchise registration system, although a registration system exists for exclusive licence agreements in relation to patent, utility model and other regulated intellectual property.

Intellectual property issues

- 7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?**

Turkey has been a party to the Paris Convention for the Protection of Industrial Property since 1925 and became a signatory of the Stockholm Text, which became effective from 1 February 1995. The TRIPs became effective from 26 January 1995 in Turkey. Turkey also ratified the PCT on 1 January 1996, effective from this date onward.

- 8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor’s intellectual property rights or registrations in your jurisdiction?**

In the absence of explicit regulation or legislation on the issue, it is not possible to contractually prohibit a licensee from contesting the validity of intellectual property rights.

The right to claim legal remedies is a basic right and liberty provided under article 36 of the Turkish Constitution: ‘Everyone has the right to claim legal remedies either as plaintiff or defendant and the right to a fair trial before the courts through legitimate means and procedures.’

According to article 13 of the Constitution, fundamental rights and freedoms can be restricted only by law and in conformity with reasons outlined in the Constitution, without infringing their essence; this is not a case that could be qualified as an exception under article 13.

- 9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?**

Licence agreements impose obligations on both the licensor and the licensee. One of the licensor obligations is to maintain the validity of intellectual and industrial rights during the term of the agreement. If the agreement is automatically terminated by the end of the protection term (10 years for trademarks and five years for industrial designs), the licensor is not obliged to renew the protection term for the industrial right concerned. However, if the licence term is longer than the protection term, the licensor must renew the protection term for the related right, in order to comply with his or her obligation to maintain the validity of the right concerned. Otherwise, the licensee is entitled to claim damages arising from the licensor’s breach.

A majority of licence agreements are contracted based on an intellectual property right. Therefore, if the subject intellectual property right becomes invalid or expires, the licence agreement will become unfounded and will no longer be effective.

According to the Competition Law, after termination of the licence agreement, the licensee is free to compete with the licensor, unless a non-compete clause exists in the licence agreement. However, even if the subject intellectual property right becomes invalid or expires, the previous right holder is entitled to protect its rights within the scope of unfair competition rules, should these circumstances arise.

- 10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?**

There is no prerequisite for evidence of prior use or prior registration of intellectual and industrial property rights in the jurisdiction of origin for foreign entities or individuals seeking to register such rights in Turkey. The necessary documents for the application and the registration of a foreign national and a local company are the same.

- 11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?**

Turkish intellectual and industrial property law accepts the principle of genuine ownership. Therefore, the real owner of a right is the one who first developed the subject of the right. Accordingly, registration before the authorised bodies is only explanatory.

Therefore, an unregistered intellectual property right can be the subject of a licence agreement. However, in this case, the licence agreement cannot be recorded to the registry, which means the licence agreement cannot be claimed against *bona fide* third parties. For example, if the owner of intellectual property rights registers its rights during the licence agreement, which is not recorded within the registry, and then transfers its rights to a third party, the licensee cannot claim its right against the *bona fide* third party who acquired the intellectual property rights. Unregistered intellectual and industrial property rights are protected by unfair competition rules.

- 12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?**

Validity

A licence agreement regarding a licensed trademark, industrial design, patent or utility models must be in writing.

For copyright licence agreements, financial aspects of the agreement must be explicitly outlined within the scope of licensed rights.

Opposable

Registering a licence is not compulsory. However, it is common and good practice for patent, industrial design and trademark licensees to register their licences with the Turkish Patent Institute in order to claim their rights against *bona fide* third parties.

Security

It is possible to take a security interest in intellectual property and to register this interest with the Turkish Patent Institute. A registered industrial right can be given as security, independently of the commercial undertaking. The written agreement or the official document proving placement of the security (or their notarised copies) must be submitted to the Turkish Patent Institute. If the documents are in a foreign language, a Turkish translation must be submitted. Like any intangible asset, a licensee's right can also be given as security, as well as pledged and attached during debt enforcement.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

A foreign owner or licensor is always entitled to protect its intellectual property rights through actions against infringements, without joining the licensee. Most of the time, such joinder is actually an obligation on the licensor's side to protect and maintain the intellectual property right in favour of the rights licensed to the licensee.

Depending on the type of the licence agreement, the licensee may also be entitled to initiate direct proceedings in the case of an infringement. The distinction between exclusive or non-exclusive licence agreements is significant when enforcing licensing rights.

In an exclusive licence agreement, unless the contract provides otherwise, the exclusive licence holder can institute all legal proceedings in his or her own name that are available to the proprietor of the right by decree-laws, if an infringement of the industrial rights occurs. Holders of non-exclusive licences do not have the right to institute legal proceedings. Non-exclusive licensees cannot file any actions based on the subject intellectual property right. However, if infringement occurs, non-exclusive licence holders can give notice through a notary public, requesting the proprietor of the right to institute proceedings as required. If the proprietor refuses to initiate or fails to do so within three months of receiving the notice, the non-exclusive licence holder becomes entitled to institute proceedings on its own behalf. The licensee can ask the court to issue an injunction for precautionary measures if it is facing serious damage that the passing of time cannot remedy. A licensee who initiates proceedings must notify the proprietor of the right.

It is possible to contractually restrict a licensee's rights, either by requiring the licensor's consent or by prohibiting filing of any actions at all.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

Unless otherwise accepted in the contract, a licensee cannot transfer the rights arising from the licence nor grant a sub-licence. However, the right to sub-licence can be contractually granted to the licensee.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

Under Turkish legislation, patent rights belong to the inventor, or to his or her successor in title. The genuine ownership principle is accepted in Turkish intellectual property law. However, the Decree-Law on Patents also states that the first person to apply will be vested with the right to request the patent, until proof to the contrary is established.

A person claiming to be rightfully entitled to request the patent (the first inventor) can initiate legal proceedings against the applicant in accordance with the provisions for cancelling a patent. In this action, the genuine inventor can request a prior patent application, subject to court action in the matter of usurpation, be accepted as his or her application and be further prosecuted as such. Alternatively, the genuine inventor could file a new application for the same invention by claiming

the same date of priority, or request the application subject to usurpation to be rejected.

According to the Decree-Law on Patents, a patent application can be subject to legal transactions, including licence agreements.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

None of these can be protected by patent registrations in Turkey. According to article 6 of the Decree-Law on Patents, the following are outside the scope of the patent protection:

- discoveries, scientific theories and mathematical methods;
- plans, methods, schemes or rules for performing mental acts, for conducting business or trading activity and for playing games;
- literary and artistic works, scientific works, creations having an aesthetic characteristic and computer programs;
- methods involving no technical aspect for collecting, arranging, offering or presenting and transmitting information or data;
- methods of diagnosis, therapy and surgery applying to the human or animal bodies;
- inventions whose subject matter is contrary to public order or morality, as is generally accepted; and
- plant and animal varieties and species or processes for breeding plant or animal varieties and species, based mainly on biological grounds.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

Registration of trade secrets or know-how is not possible. The Draft Law on Trade Secrets, Client Secrets and Banking Secrets has not yet been enacted.

Although no specific regulation addresses protection of trade secrets and know-how, several provisions in Turkish legislation relate to 'trade secrets' in compliance with international treaties. Article 39.2 of the TRIPs Agreement refers to 'undisclosed information' and is directly applicable in Turkey.

The TCC has a specific provision about unfair disclosure of business secrets. Accordingly, illegally disclosing business and trade secrets is deemed to be an act of unfair competition. Business secrets are a wider concept than trade secrets, also including information about the business and business know-how.

Trade secrets are defined in the Draft Law on Trade Secrets, Client Secrets and Banking Secrets.

Group Exemptions of Vertical Agreements in Turkish Law also includes a brief know-how definition.

The remedies for violations of trade secrets and know-how do not differ from remedies applicable to other forms of unfair competition. According to unfair competition rules, a right owner can ask through the court for violations to be determined, stopped and prevented. The right owner can request a preliminary injunction, restitution of the material status and facts resulting from the unfair competition, as well as payment of compensation for material and moral damages occurring because of the violations.

If a contractual relationship exists between the parties and an unfair violation of know-how or trade secrets occurs, the party whose rights are violated has competing rights, based on the contract or the unfair competition provisions of the TCC.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

It is possible to outline a disclosure clause in a licence agreement, preventing the licensee from using or disclosing trade secrets, both during or after the term of the licence agreement. However, these clauses should be appropriate in line with general principles of Turkish Competition Law. Non-disclosure clauses must not prohibit the licensee from entering the market and freely competing.

19 What constitutes copyright in your jurisdiction and how can it be protected?

Generally, an intellectual or artistic work is protected under the Turkish Copyright Act if the work (article 1 of the Turkish Copyright Act):

- has the author's individuality; and
- falls into one of these categories:
 - scientific and literary works (article 2);
 - musical works (article 3);
 - works of fine art (article 4); or
 - films (article 5).

Registering a work is not mandatory to claim protection in Turkey. Copyright protection begins automatically when a work is first created and put in a tangible form. The owner of the work obtains moral and economic rights with the creation of the work. According to regulations, movie makers, music record companies and computer games are subject to mandatory record and registration systems.

Customary and practical actions are taken in certain situations. For example, for certain know-how such as TV show formats, initiators choose to have the format notarised, in order to establish definitive evidence that they held the know-how at a given date.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

If the licensee contributes to any work within the scope of the licence relationship, the licensor must request grant-back licences. Therefore, in general it is advisable for the licensor to require assignment of those copyrights in the licence agreement. A standard and general clause to this effect can be included in the general licence agreement. However, this clause can be accepted as an undertaking. It is advisable for the parties to sign an additional agreement for assignment of the copyrights.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Under Turkish legislation, a term is not an essence of a licence agreement. Therefore, it is possible to execute a licence agreement for an indefinite term. However, parties cannot waive their termination rights in advance. Therefore, parties cannot execute a perpetual agreement that will be in force endlessly.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

Before granting software licences, parties must execute the licence agreement in writing, as well as explicitly and separately stating the scope of the licence and software rights that are subject to the agreement (article 52 of the Turkish Copyright Law).

Software is not a material good. It is not subject to customs legislation because it does not pass through a customs border. Therefore, software licences are not subject to any import and export restrictions.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

Under the Turkish Copyright Act, ownership of improvements, modifications and bug fixes are separately evaluated and depend on the subject matter licence agreement, to the extent permitted by law.

Improvements and modifications to licensed software are considered to be 'derivative works' under the Turkish Copyright Act. As a principle, a derivative work right is exclusively subject to the licensor's consent. Therefore, a contractual provision is required. The parties can determine the owner of derivative works. If not, provisions of the Turkish Copyright Act will apply, which stipulate that 'the owner of a processed work is the person who has made the derivative work provided that the rights of the author are reserved'. Accordingly, unless

agreed otherwise by the parties, the licensee will own derivative works. However, as per article 38 of the Turkish Copyright Act, even in the absence of a specific contractual provision, bug-fixing of software cannot be prohibited where necessary for the use of the software in accordance with its intended purpose. Therefore, derivative works regarding bug-fixing will belong to the licensee, even if there is no clause or permission under the licensing agreement.

The licensor must maintain the licensed software in order to be available for proper use. If bug-fixes, upgrades and new releases are made to correct essential errors preventing the licensee from using the software in accordance with its intended purpose, or which are necessary for the use of the software within the scope of the licence agreement, the licensor can provide the licensee with these improvements, even without a contractual provision to this effect. However, the licensor has no further obligation to improve the licensed software, unless this is agreed in the licence agreement. In this case, the licensee can choose not to obtain such improvements from the licensor.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

Under Turkish legislation, no provisions enable or prevent a process or routine to automatically disable or cause unauthorised access to disable, erase or otherwise adversely affect licensed software. However, in line with the protection of software and in accordance with article 72 of the Turkish Copyright Act, preparatory acts for disabling protective software are considered crimes under the Turkish Copyright Act. However, such routines can be applied for security purposes, although this issue may differ on a case-by-case basis, for example, if such a routine breaches freedom of communication or data privacy rules.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

No regulation or jurisprudence refers to error-free liability of licensors regarding licensed software.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

No explicit restriction exists to the effect that without prior consent or knowledge of the user, the users' control of the device can be interfered with. Article 24 of the Turkish Civil Code, regarding protection of personal rights, is a generally applicable benchmark, and failure to comply attracts compensation of damages. Provisions of the Turkish Criminal Code regarding 'Crimes Committed Against Private Life and Secret Areas of Life' should also be considered, based on the facts of the individual case.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

No.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

The freedom of contract principle applies to the amount, manner or frequency of payments of royalties and other fees and costs within an international licensing relationship. If the licensing relationship is between related parties, the royalty amount should not be one that

qualifies as transfer pricing and must be determined on an arm's-length basis.

In Turkish legislation, any payments of more than 7,000 Turkish lira must be made via bank channels.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

In Turkish legislation, any payments (including royalty payments) of more than 7,000 Turkish lira must be made via bank channels and amounts up to 25,000 Turkish lira are not subject to authentication requirements. There are no restrictions on bringing foreign currency into Turkey. In terms of outflow of foreign currency from Turkey, amounts exceeding €10,000 (or its equivalent) can be transferred either from a person's foreign currency bank account via a bank transfer, or obtaining a foreign currency purchase certificate. This restriction is intended to monitor foreign exchange outflows and prevent illegal money transfers.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

The licensor's nationality is not a relevant criterion regarding taxation of licensors in Turkey. However, the 'full' or 'limited' taxpayer status is relevant and is determined according to residency. If the foreign licensor is resident in Turkey, his or her worldwide income will be taxed in Turkey. However, if the foreign licensor is not resident in Turkey, only his or her income generated in Turkey will be taxed in Turkey, unless otherwise determined under a relevant and applicable double taxation treaty. Turkey is currently party to more than 80 double taxation treaties.

Licensees must withhold tax on payments made to foreign licensors. If the party that earns the income (the licensor) is a full taxpayer in Turkey, no withholding obligation arises for the licensee. If the licensor is a limited taxpayer, withholding obligations arise for the licensee. According to the Corporation Tax Code, for royalties, the withholding percentage is 20 per cent of the accrued amount. The Income Tax Code stipulates the same obligation, with the same percentage. Therefore, the obligation exists for both corporations and real persons. Bilateral treaties include special provisions on the bilateral treatment of revenues from (intangible) rights realised within the relevant countries.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor due to currency exchange fluctuations be enforceable?

A lawsuit can be initiated and a judgment can be rendered in a foreign currency in Turkey. Article 99 of the Code of Obligations No. 6098 provides that a special claim based on payment in kind, or in foreign currency, must be made for this. Otherwise, the claimant can require the currency rate on the day of actual payment be used.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Practices that potentially restrict trade are primarily regulated under Law No. 4054 on Protection of Competition (Law No. 4054), which is closely modelled on European Union legislation.

Two pillars of Turkish competition law are article 4 (modelled on article 101 of the Treaty on the Functioning of the European Union (TFEU)), regulating agreements, concerted practices and decisions restricting competition and article 6 (modelled on article 101 of TFEU), regulating abuse of dominant positions.

Specific issues are dealt with under secondary legislation, such as the Block Exemption Communiqué No. 2002/2 on Vertical Agreements and the Block Exemption Communiqué No. 2008/2 on Technology Transfer Agreements (Communiqué No. 2008/2).

Depending on the specific facts of the case, restrictions could be deemed within the scope of article 4 or article 6 of Law No. 4054.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

Licence agreements concerning grant of a technology licence to produce products under the agreement are subject to the provisions of Communiqué No. 2008/2. A licence agreement would not violate article 4 of Law No. 4054, provided it complies with Communiqué No. 2008/2. Market share thresholds apply for Communiqué No. 2008/2 to apply.

Communiqué No. 2008/2 provides different rules for agreements between competitors and for agreements between non-competitors.

Communiqué No. 2008/2 has rigid rules for agreements between competitors in relation to price restrictions, output and production restrictions and customer and territory allocation.

Price restrictions and customer and territory allocation in agreements between non-competitors are permitted, subject to certain conditions.

Paragraph 24 of the Guidelines on Vertical Agreements identifies internet sales as passive sales. However, sending emails to customers in an exclusive territory or a group of customers of another buyer will be considered to be a method of active sales, so long as such a request is not solicited by the customers in question.

Finally, as per article 7(2)(a) and (b) of Communiqué No. 2008/2, the exemption will not apply to the following restrictions:

- any direct or indirect obligation on the licensee to grant an exclusive licence to the licensor, or a third party designated by the licensor, in respect of its own severable improvements on or new applications of the licensed technology; and
- any direct or indirect obligation on the licensee to assign, partly or completely, to the licensor, or a third party designated by the licensor, rights related to its own severable improvements on or new applications of the licensed technology.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

There is no general jurisprudence in Turkish legislation regarding the subject.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are commonly used in Turkey, and are generally enforceable. Insurance coverage for protection of a foreign licensor is not common in Turkey.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Parties can contractually agree to waive or limit certain types of damages via special indemnification clauses. However, limitations in the following circumstances will be null and void (article 115 of the Code of Obligations No. 6098):

- Prior agreements which foresee that the obligor will not be liable for its gross negligence; or
- Prior agreements which foresee that the obligor will not be liable for any obligation arising from the service agreement between the obligor and the creditor.

If a service, profession or craft requiring specialisation is provided with a permit provided by laws or authorised authorities, prior agreements which state that the obligor will not be responsible for slight negligence.

Therefore, liability waivers for damages which include the above exceptions cannot be applied, but ordinary negligence can be excluded from the parties' scope of liability in unregulated sectors.

Termination

- 37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?**

Turkish law does not specifically outline conditions or restrictions for terminating a licence agreement. The Turkish Code on Obligations No. 6098 includes provisions on withdrawal from a contract. However, it does not address termination of a contract. In contracts where termed obligations exist, there is general consensus in case law and legal theory that parties have a right to end a long-term contract (ex nunc termination).

Otherwise, parties to a licence agreement can specify certain events or causes for termination within the agreement, as well as notice periods. A termination that is not in compliance with such termination grounds or notice periods will require payment of compensation to the counterparty in accordance with general terms. Under general provisions of law of contracts, any termination should be made by granting a sufficient notice period to the counterparty. For lease agreements (which are similar in nature to licence agreements), a six-month period is applied to agreements with an indefinite term. Decisions by the Turkish Court of Appeal state that sufficient notice period must be granted to the counterparty to terminate licence agreements. However, the exact length of such period should be considered on a case-by-case basis.

- 38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?**

Turkish law does not specifically regulate the impact of licence termination on any sub-licences that the licensee may have granted. General provisions will apply to such cases if the licence agreement does not include a provision addressing this issue. According to general provisions, terminating a licence agreement will terminate the sub-licence on the basis of *nemo plus juris transferre ad alium potest quam ipse habet* (no one can transfer to another a greater right than he or she him or herself has). Arguably, the sub-licence agreement is similar in nature to a sub-lease agreement. Therefore, since sub-lease agreements are deemed to be terminated when the main lease agreement is terminated, this approach should also be applied analogously to sub-licence agreements.

Bankruptcy

- 39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?**

A bankrupt licensee is not authorised to exercise any rights over the assets included in the bankrupt's estate, as per article 191 of the Code on Debt Enforcement and Bankruptcy No. 2004. Therefore, all actions or transactions in violation of this restriction are deemed null and void, as well as unenforceable against creditors. Licensing rights are based on the licensor's title to the intangible right. These will be excluded from the bankrupt's estate because the licensee cannot exercise them anymore. Case law indicates that pharmaceutical dossier licences cannot be attached by third-party creditors, because the licensor owns the original right.

The licensee's bankruptcy does not automatically terminate the licence agreement. Clauses that grant a right to terminate the agreement on the basis of good cause if the licensee is bankrupt, insolvent, filed for postponement of bankruptcy or is in financial distress can be included in licence agreements. These will ensure that the licensor can terminate the agreement without being subject to compensation claims if the licensee becomes financially distressed.

Governing law and dispute resolution

- 40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?**

Parties are free to choose the governing law, subject to directly applicable rules and exclusive jurisdiction clauses. For intellectual property rights subject to the licence, laws under which protection is sought will apply, as per article 23 of the Code on International Private Law and Procedure No. 5718.

- 41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.**

Parties can contractually agree to arbitrate substantive contractual matters. Arbitration proceedings can be held in a place of the parties' choice. Trademark protection and unfair competition claims (as rights competing with those under the contract) can only be brought before the local court of jurisdiction. Precautionary or interim measures cannot be arbitrated and must be brought before the court of local jurisdiction.

Class action arbitration is not enforceable and applicable under Turkish legislation.

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42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

In principle, a court judgment or arbitral award from another jurisdiction will be enforceable in Turkey, subject to the requirements stipulated in the Code on Private International Law No. 5718. Turkey is party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available in Turkey. The contractual waiver of injunctive relief and any other rights that have not arisen so far is not valid.

Clauses limiting liability are enforceable, provided they do not include the exceptions noted in question 36.

Under Turkish legislation, parties may contractually waive their rights unless the applicable legal rule is mandatory. For example, liability limitations are valid and enforceable, provided they do not include the exceptions noted in question 36.

United Kingdom

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Overview

- Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

The UK does not have restrictions on foreign persons or entities being shareholders in UK corporate entities, or participating in joint ventures, subject to any international sanctions that may be in place.

Foreign entities will often license into, or take part in a joint venture in, the UK without establishing a branch office or subsidiary in the UK. This may be subject to some limitations depending upon the industry and other places of business of that foreign entity; EU pharmaceutical regulations require that a company has a qualified person responsible for pharmacovigilance based in the EU, for example.

Foreign licensors may establish their own subsidiary entities governed by UK legislation, such as private limited companies, using the standard UK processes. Alternatively a foreign entity may establish business operations in the UK in its own right, provided that it registers as an overseas company with Companies House (the UK body responsible for administering companies) within one month of opening for business. This registration is done by completing a form titled OS IN01, and paying a small fee. Certain businesses may also require operating licences, depending upon their field of industry.

Kinds of licences

- Identify the different forms of licence arrangements that exist in your jurisdiction.**

The UK does not have a specific piece of licensing legislation, however, various intellectual property statutes (the Patents Act 1977 (PA), Copyrights Designs and Patents Act 1988 (CDPA) and Trade Marks Act 1994 (TMA)) contain rules governing at least part of the licensing of those rights. The scope and complexity of licensing under English law often exceeds the simpler bounds contemplated by this legislation, and there is a substantial body of English common law clarifying these rights. Common licence types include the following.

Technology transfer licensing and its sub-types: patent and know-how licensing. Such licences are highly fact-specific and can perform multiple functions, such as governing intra-group know-how transfers in a tax-efficient manner, governing the input and outcomes of joint R&D projects or direct licensing of intellectual property for manufacturing or sales purposes within a jurisdiction. Depending upon the parties and intellectual property involved, UK and EU competition law may be a consideration.

Software licences are increasingly prevalent given the growth of the UK IT services economy. Again, the scope and purpose varies considerably on the matter at hand. Licences to a generic software tool are often granted by developers in perpetuity for a fixed fee, though these licences will often not govern future software upgrades by the developer or warrant as to coverage. Licences for bespoke software tools or software development will often be considerably more complex and contain carefully delineated intellectual property right transfers or exchanges.

Trademarks are often licenced as between various parties in a supply chain, for example, from a manufacturing licensor to a distributing licensee, or a holding licensor to a licensee that may manufacture and distribute. Trademark and brand licensing are also a significant intra-group tool for value transfers. Where the licensor and licensee are not part of a group, royalty and quality control provisions will typically be exacting.

The UK also has limited compulsory licensing and licences of right, for example, in order to prevent the abuse of monopolies of functional designs, section 237(1) of the CDPA provides for any person to obtain a licence to do any act that would infringe a design right in the last five years of that design right's term. If the parties cannot agree to the terms of such a licence then the terms will be settled by the Comptroller of Patents, Designs and Trade Marks, though the CDPA contains no guidance for the Comptroller. EU regulation also requires compulsory licensing of patents relating to the manufacture of pharmaceutical products to countries with public health problems.

The above paragraphs are not exhaustive and there is a wide variety of possible licensing arrangements under English law, these include, for example, licences for domain names, plant varieties, registered and unregistered trademarks and other intellectual property rights.

Law affecting international licensing

- Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Depending upon the parties and rights involved in the licence, the legislation most likely to impact an international licensing relationship will be UK and EU competition laws, more particularly article 101 of the Treaty on the Functioning of the European Union (TFEU), and the Technology Transfer Block Exemption Regulation (TTBER) and its accompanying Guidelines. The TTBER restricts the use of certain licensing terms, notably passive sales restrictions (other than in jurisdictions with exclusive licensees) and automatic assignments or exclusive licences of improvements developed by a licensee to the licensor. The TFEU is concerned with anticompetitive behaviour more generally, and seeks to regulate the relationship between competitors, suppliers and customers. These laws can be used to prevent dominant parties forcing others into perpetual licences, or manipulating markets by contracting with anticompetitive royalty rates or minimum supply requirements from a given supplier. See question 32 for further detail in this regard.

The UK has no legislation requiring that products must be purchased locally, or any equivalent provisions.

- What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

There are no formal requirements for pre-contractual disclosure in the UK. Subject to the transaction and resources at hand, parties may wish to agree upon a due diligence process similar to that for a corporate acquisition; however, for many small scale licences (such as generic software licences) this is neither feasible nor necessary.

Licensors should be aware of the impact of inducing a licensee to enter into an agreement by misrepresentation, which can lead to

rescission of the contract, or a payment in damages to the licensee. Silence may constitute misrepresentation in some circumstances, and accordingly a licensor may wish to make some limited disclosure, or include some level of warranty in any licence.

There are no requirements to register licences to confirm their validity; however, it is advisable to register exclusive patent licences and any trademark licence with the UK IPO, EPO or Trade Marks Registry as applicable. Licensees are only granted certain rights in the event of prompt registration – for example, an exclusive patent licensee must register the grant of the licence within six months if it wishes to claim costs associated to an infringement action.

5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?

Commercial entities contracting in the UK are able to agree to such terms as they wish, provided that the agreement is freely entered into by all the parties. While the position is not entirely settled, English courts have typically been reluctant to imply general ‘good faith’ obligations into contracts.

The courts have a limited discretion to imply terms into agreements, where such a term is required to give business efficacy to an agreement, or is obvious to both parties to have been a term at the time of formation, however the courts will not intervene to resolve a bad bargain where both parties have freely entered into the agreement, to the ultimate detriment of one or both.

Termination is similarly subject to the agreement reached between the parties and may be unilateral and without cause if the parties will agree it. However, where an agreement is silent on both its term and termination the courts will imply a term that an agreement is terminable on reasonable notice, though reasonableness will be judged on the facts at hand, rather than a statutory standard. There is also no obligation for good cause for non-renewal.

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

The UK has very little in the way of bespoke legislation for franchising, bar the Trading Schemes Act 1996, which regulates ‘pyramid’ franchising. Instead, franchise agreements will incorporate the relevant law from the various fields that the agreement will cover. A central function of a franchise agreement is to grant a trademark licence to the franchisee, under which the franchise will operate in order to be recognisable as part of the franchise group. There may also be some licensed know-how, for example, recipes in fast food franchising. However there will also be more franchise-specific commercial terms, such as purchasing obligations, advertising sharing, standardised business practices and quality controls which are not licensing terms per se. A franchisor will typically seek to maintain considerably more control over the operations of a franchisee than a licensor will over a licensee, owing to the potential impact of an underperforming franchisee on the overall business of the franchisor.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

The UK is party to the Paris Convention (in force since 1884), the PCT (in force since 1978) and TRIPs (in force since 1995).

On a pan-European point, the EU’s long-delayed ‘unitary patent package’ legislation, which will ultimately create a unitary patent right and a Unified Patent Court (UPC) for Europe, currently features the UK as a signatory. The UK government has also indicated its intention to ratify the UPC Agreement; and existing European patents will be subject to the jurisdiction of the UPC. However, the ultimate scope of the UK’s long-term involvement in the UPC remains uncertain in light of the Brexit vote.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor’s intellectual property rights or registrations in your jurisdiction?

There is no outright prohibition on non-challenge clauses, however licensors should be wary of being seen to restrict competition or restrain trade under article 101 TFEU. TTBER and its Guidelines provide a competition framework for patent, know-how and copyright agreements by way of a block exemption to article 101.

Under article 5(1)(b) TTBER, non-challenge clauses relating to EU intellectual property rights in non-exclusive licence agreements will not benefit from the block exemption, and will be subject to article 101. However, non-challenge clauses in exclusive licence agreements are protected under the block exemption. Paragraph 134 of the Guidelines explains the proviso as follows:

The reason for excluding non-challenge clauses from the scope of the block exemption is the fact that licensees are normally in the best position to determine whether or not an intellectual property right is invalid. In the interest of undistorted competition and in accordance with the principles underlying the protection of intellectual property, invalid intellectual property rights should be eliminated. Invalid intellectual property stifles innovation rather than promoting it.

The Commission views non-challenge clauses as typically acceptable in the context of settlement agreements, though with the proviso that the no-challenge should only be induced by a licence to the right in question.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

Typically it will be a term of an intellectual property licence that it will terminate in line with the expiry or invalidity of the right in question. However, there are some nuances depending upon the right in question.

Patent licensors should be aware of the impact of EU competition law, as agreements that restrict the right of a licensee to compete against the licensor after the expiry of the patent will be in breach of this legislation. Similarly, licences requiring indefinite payment of royalties or fees are likely to be in breach of competition law, although an ongoing obligation for payment exceeding the term of the patent may be permissible where it pertains to either fair reward for the patent holder (for example, in research patents, which may not ultimately bear fruit during their term, although their exploitation may be instrumental to any eventual commercial outcome), or is in relation to know-how associated with the patent.

Trademark licensors may wish to be careful about accepting termination on the invalidation of a trademark, as the trademark may retain value as an unregistered trademark with its attendant goodwill. Should a licence not provide for expiry on the invalidation of the trademark, a licensee would need to demonstrate that the invalidity of the trademark was a repudiatory breach of the licence, or that the maintenance of that trademark was a condition of the agreement, in order to terminate.

Various unregistered rights, such as copyright and design rights, will expire over time, and agreements pertaining to such rights should take this into account in much the same way as they would otherwise pertain to expiry of registration.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

The UK has no special requirements for the registration of intellectual property owned by foreigners, or for the registration of intellectual property rights originating in another jurisdiction. The registration of intellectual property rights originating outside or held by entities based outside the UK should follow the UK’s standard registration processes.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

An unregistered right may be licensed, or assigned, to the extent that it can be defined in such a way as to grant sufficient certainty as to the scope of that property right. Unregistered trademarks are not uncommon in the UK and are often licensed, as they are easily delineated and can be protected under the common law tort of passing off, thereby giving a licensee comfort as to the value of its licence. Similarly, licences of registered trademarks will typically incorporate reference to the attendant unregistered rights associated with that trademark, such as any goodwill accrued to it. Future or potential rights can be licensed prospectively.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

Validity

Patents: A patent licence does not need to be in writing or signed by both parties to be valid; however, it is advisable for a licence to be formally prepared and executed so as to have clarity over its terms.

A licence of a jointly owned patent will not be valid without the consent of each owner, unless the owners have entered into a prior agreement that a case-by-case approval is not necessary.

Trademarks: A licence of a registered trademark must be in writing and signed by the licensor to have effect. An unregistered trademark has no requirements for a valid licence.

Copyright, design rights and registered designs: These rights do not require that non-exclusive licences be in writing; however, it is certainly advisable that they be formally prepared. Exclusive licences of these rights (ie, licences to the exclusion of the owner of the right) must be in writing and signed by the right owner.

Opposable

Patents: Patent licences should be registered at Companies House and the International (IPO) or European Patent Office (EPO) as applicable. Without registration the licence will be ineffective against a party acquiring a subsequent interest in the patent without actual knowledge of the licence. Further, if an exclusive licensee does not register its interest within six months, it will not be able to obtain retrospective costs or expenses in infringement actions incurred prior to the licence's eventual registration.

Trademarks: Trademark licences should be registered at Companies House and the IPO or EPO as applicable. Without registration the licence will be ineffective against a party acquiring a competing interest in the trademark without actual knowledge of the licence. Further, the licensee will not be able to enforce the rights and remedies available to it in respect of infringement, and if it does not register within six months, will lose the right to retrospective costs or expenses in infringement actions incurred prior to the licence's eventual registration.

Copyright and design rights: copyright and design right licences are binding on all successors in title to the owner, except for purchasers in good faith for valuable consideration. As there is no register of copyright or design right in the UK, a licensee may want to consider having the licensor warrant that it will notify any future purchaser of its interest.

Registered designs: Registered design licences are opposable only if registered on the Design Register at the UK IPO.

Security

Intellectual property rights are property rights, and are therefore capable of being subject to the usual security interests under English law. There are no requirements unique to the securitisation of intellectual property, which may be mortgaged or subject to fixed or floating charges in the usual manner.

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

Subject to the provisions of any licensing agreement, there is nothing in UK legislation to restrict a foreign owner or licensor from commencing proceedings without joining the UK licensee. There is also nothing to prevent a licensee from initiating proceedings without the consent of the owner or licensor, subject to the licensee having standing to issue the proceedings.

The position in respect of patents is prescribed by legislation. Under section 67 PA a licensee may only bring proceedings in respect of a patent to which it is the exclusive licensee, and in the event that it does so the patentee must either be joined as a claimant, or if it is unwilling to do so, as a defendant (provided that, if the patentee does not enter an appearance as defendant, it shall have no liability in costs). An exclusive licensee under section 67 PA may be awarded damages or other relief. Section 46 PA provides that a licensee under a 'license of right' may require a patentee to issue proceedings to prevent infringement, and if the patentee does not do so within two months, may commence proceedings itself, joining the patentee as a defendant (though without cost liabilities unless entering an appearance).

A licensee may be prohibited from exercising the above rights by agreement with the licensor.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

There is no statutory right to sub-license in UK legislation, and both section 30(4) PA and section 28(4) TMA refer to sub-licences being grantable only so far as is provided for in the relevant head licence. The CDPA is silent on rules for sub-licensing copyright, but in light of the above it is likely that no such right will be implied unless specifically contemplated within the head licence. Licences should in any event deal expressly with sub-licensing rights to avoid later dispute or inference, for instance, where a licence is to 'all the rights under the patent'.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

The UK is a 'first to file' jurisdiction. Patent applications are considered personal property under section 30 PA, and accordingly grants of rights may be made out of them.

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

Software: While software is an excluded and non-patentable category under section 1(2)(c) PA, UK case law is pulling away from the certainty of this, as the courts have considered whether the software creates a meaningful technical effect. The IPO has issued guidance based primarily upon the judgments in *Aerotel Limited v Telco Holdings Ltd* and *ors* [2006], *Symbian Limited v The Controller of Patents* [2008] and *HTC Europe Co Ltd v Apple Inc* [2013], indicating that where software meets certain signposted criteria around technical effect, it will be patentable, subject to the other usual requirements.

Additionally, computer code may be protected by copyright, and databases within software may be protected by database rights.

Business methods: Business methods are similarly excluded from patent protection under section 1(2)(c) PA. However, they are subject to the same IPO guidance as software, and in the wake of *Aerotel* business methods have been found to be patentable where they have a demonstrable technical effect above and beyond their methodology.

Living organisms: Directive 98/44/EC (the Biotechnology Directive) as implemented in Sch A2 PA states that a biological product or a process relating to biological material may be patented, subject to

several exceptions within the field. These include any inventions pertaining to the human body, cloning, and any industrial or commercial use of human embryos.

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

The UK does not have specific legislation governing trade secrets or know-how, though they can be effectively protected under the UK's 'law of confidence', a common law doctrine. Trade secrets can be protected if it can be established that the information has the necessary quality of confidence, and that anyone with access to the information owes its owner a duty of confidence. It is not a requirement that a given recipient enters into a non-disclosure agreement, though it is indicative of a relationship of confidence. If a recipient then discloses that information in breach of that confidence, legal action can be taken by the owner.

Parties will often enter into agreements when transferring trade secrets or know-how between each other for any purpose expressly protecting the use and handling of the information, and setting out the indemnities in respect of their loss or misuse. It is also common in such agreements to include an express reference granting the right to seek an injunction as first recourse in the event that the information is lost or misused. The courts have been willing to grant injunctions in recognition of the importance of trade secrets.

The Council of the European Union formally adopted Directive 2016/244/EU (the 'Trade Secrets Directive') in May 2016, to be implemented by member states by 9 June 2018. The Trade Secrets Directive adopts a common definition of trade secrets and sets out a harmonised protection framework. However, it remains to be seen if and to what extent this will be implemented in the UK in light of Brexit.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

Parties are free to contract so as to restrict the disclosure of trade secrets to third parties, and will ordinarily do so. Confidentiality provisions will typically be drafted to survive the agreement and be severable, as disclosing parties will wish to protect their trade secrets indefinitely, rather than just for the term of a given licence; any loss of confidentiality in the future will limit the capacity of the disclosing party to monetise that information going forward.

Parties are similarly free to contract with respect to the confidentiality (and other rights) associated with any follow-on work or improvements that a licensee might make, but should be aware of competition law restrictions on exclusive grant-backs of IP rights, as further discussed in question 33.

19 What constitutes copyright in your jurisdiction and how can it be protected?

UK copyright law is set out in the CDPA 1988, though works published before that date will be subject to the law in place at the time of their creation (the Copyright Act 1956 and the Copyright Act 1911). Although there is some nuance in the application, generally a work which is original and permanent (ie, has been recorded in some way) will be automatically protected by copyright provided that it falls within one of the following categories:

- literary, dramatic, musical or artistic works;
- sound recordings, films, broadcasts or cable programmes;
- typographical arrangements of published editions; and
- databases.

Copyright protection lasts for 70 years from the end of the year in which the last creator of the work dies, though for some of the above categories the period is shorter. Although there are no publication or registration requirements for UK copyright, it is advisable to maintain a record of a work's creation, should ownership disputes arise.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

Under the CDPA, the creator of a copyrighted work is its owner, unless that creator makes the work in his or her capacity as an employee, in which case the employer is the owner. Accordingly it is important that licences address the assignment of copyright as it may be developed or contributed to by a licensee. When licensing software for production, parties should be conscious of the TTBER provisions excluding from the block exemption any obligations on a licensee to assign or exclusively license improvements back to the licensor, as discussed further at question 33.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Parties to agreements in the UK are free to contract for any term that they wish, subject to competition rules. There is therefore no bar to a perpetual licence, but to ensure the functioning of the licence in practice, parties should contract clearly that the licence is in perpetuity, and also directly address termination. In *BMF Computer Solutions v AB Agri Ltd* [2010] the courts held a perpetual licence to be terminable on its true construction (including by reference to its construction in relation to other related agreements between the parties).

Practically speaking, software has a limited lifespan relative to the copyright protection it is entitled to, and accordingly parties are unlikely to come upon issues of enforceability owing to duration and competition requirements.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

As software can be protected by copyright, an exclusive licence to a piece of software should be in writing and signed by or on behalf of the copyright owner. This is typically the licensing entity, but copyright ownership should be checked in advance of entering into any licence. Beyond this there are no bespoke requirements pertaining to software licensing.

The UK has some export restrictions, primarily in relation to military goods; the list of restricted goods (which can include software) is published as the UK Strategic Export Control List. Software is unlikely to be restricted at import; however, importers should be aware that imported goods infringing intellectual property rights in the UK may be detained.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

In order to make improvements or modifications to copyrighted software, a licensee will require an express contractual right. A licensee will own any improvements that it might make unless there is a contractual provision requiring that such new rights are the property of the licensor. This is, of course, subject to the proviso that any copyright in any improvement that might be held by a licensee will be effectively useless without the right to use the underlying copyrighted software.

However, under section 50C CDPA, unless there is a contractual prohibition, a licensee may fix bugs itself if it is necessary for the use of the software, including by doing such acts as may otherwise infringe the copyright.

Unless there is a contractual obligation to do so, a software licensor is not obliged to provide bug fixes or upgrades to its licensees.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

There is no restriction in the UK against the inclusion of disabling code in software, and indeed a licensor would be wise to include such a power in order to maintain control against misuse or infringement of

its intellectual property rights. Accordingly the exercise of such a power is primarily subject to the contractual terms between the parties; if the licensor reserves the right to terminate for material breach then it would have the right to use disabling code.

This being said, unilaterally disabling a licensee's software would be an at risk decision for the licensor, as if the licensor was wrong about the breach, or if the breach was ultimately not material, the licensor would itself be in breach of the licensee. It is therefore to be recommended that any use of disabling code is subject to typical material breach notifications and procedures.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

Courts in England have recognised that software is not inherently error-free and as such not all bugs can be categorised as a breach of contract. Licensors of software will usually have a contractual obligation to fix bugs. Best practice is to set out the standard required by a software developer, particularly in the context of business or safety critical functions which have a much lower tolerance for errors. Ultimately, it will be a matter of what the parties have agreed in the contract, and the existence of bugs may not amount to a breach where there is an obligation by the developer to eradicate errors through regular software updates. The position may also be affected by whether the system is bespoke or 'tried and tested' and whether the software is still in the development phase. This position is reflected in several cases, such as *St Albans v ICL* [1996] EWCA Civ 1296, *Sam Business Systems Limited v Hedley & Co* [2002] EWHC 2733 (TCC) and *Southwark LBC v IBM UK Ltd* [2011] EWHC 549 (TCC).

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

The Computer Misuse Act 1990 includes an offence with criminal liability for unauthorised acts which impair a computer, program or data. In one case prosecuted under section 3 of the Act (*Whittaker* (unreported), Scunthorpe Magistrates Court, 1993), the software developer included code within the software which disabled the software following a dispute over payment. The software developer would not have been found guilty had the contract permitted the software developer to use such a 'logic bomb'. This Act came about through the uncertainty in prosecuting under section 1(1) of the Criminal Damage Act 1971, which requires damage to physical property, for example, where loss of data led to the magnetic particles on the disk being altered (*R v Whiteley* (1991) 93 Cr App R 25).

The Data Protection Act 1998 contains provisions on the processing, loss, damage or destruction of personal data. The more extensive EU General Data Protection Regulation will, despite the UK's impending exit from the European Union, come into effect in May 2018 and will impose further requirements, including the right to data portability.

Note that the UK has also passed the Investigatory Powers Act 2016 which allows government agencies to interfere with users' devices and to access data. It also places an obligation on communication service providers to assist authorities with interception of data and equipment interference.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

There have not yet been any cases in UK concerning the use of open source software. It should be noted, however, that organisations such as the Free Software Foundation actively analyse alleged breaches of open source software licences and have taken action in the courts in other jurisdictions, but not yet the UK.

The UK government's policy on open source policy expresses a preference for using open source software where it offers best value for the taxpayer, owing to its inherent flexibility.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

The UK does not place restrictions on or require approvals for payments in international licensing relationships.

Unless the contract stipulates the interest rate and details how debts will be recovered, the Late Payment of Commercial Debts (Interest) Act 1998 provides that in business to business contracts, a creditor can claim interest at a rate of 8 per cent a year above the Bank of England base rate on the price of goods or services, plus a fixed sum and reasonable costs of recovering the debt. Whether or not the act applies to international agreements depends on the choice of law and whether there is a significant connection to the UK.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

There are no legal restrictions on capital flows to and from the United Kingdom, although persons carrying more than €10,000 (or equivalent) in cash, cheque or bankers draft into or out of the European Union must complete a cash declaration form, with fines of up to £5,000 and seizure of the cash for a false or non-declaration.

Additionally, the Proceeds of Crime Act 2002 places reporting obligations on those who suspect money laundering and imposes liability on those involved in the handling of assets obtained from criminal conduct.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

In general, non-resident licensors are only subject to tax in the UK on income that is attributable to a permanent establishment in the UK of that licensor; or to the extent that tax is required to be withheld by the licensee.

Withholding tax is imposed on payments of royalties for a number of different types of IP including patent royalties, copyrights, trademarks and design rights. There are certain reliefs from the duty to deduct tax, the most common being where a double tax treaty (DTT) concluded between the UK and the jurisdiction in which the licensor is resident provides that the rate of withholding is to be reduced (sometimes to as low as zero).

Where no reduction in the rate of withholding tax is possible, the rate of deduction is 20 per cent of the royalty. If a licensor has suffered a withholding, it may be able to claim credit for the UK tax withheld in its home jurisdiction, either under local law or under the provisions of any applicable DTT.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor owing to currency exchange fluctuations be enforceable?

The judgment can be ordered in a foreign currency, and should be paid in foreign currency or the sterling equivalent at the time of payment.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Practices which have as their object or effect the prevention, restriction or distortion of competition within the EU and may affect trade between member states are prohibited by article 101 TFEU. A similar prohibition applies to practices having an effect on trade within the UK under Chapter I of the Competition Act 1998. Agreements or practices relating to price fixing, output limitation, market sharing, resale price maintenance or absolute territorial protection are particularly likely to be caught by this prohibition. However, commercial agreements may contain other terms that affect competition, such as exclusivity provisions or customer restrictions. These need to be considered in their market context.

Article 102 TFEU and Chapter II of the Competition Act 1998 similarly prohibit practices affecting trade that constitute an abuse of a dominant position. This can include acts by a dominant company such as predatory pricing, refusal to supply and tied selling.

Serious infringements of these prohibitions carry heavy penalties. Agreements which infringe article 101/the Chapter I prohibition may be partly or wholly unenforceable.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

The prohibitions outlined in question 32 can apply to licence agreements. Licences which comply with the terms of the TTBER are deemed compliant with competition law. Licence agreements outside of the block exemption require fuller consideration, with the assistance of the Technology Transfer Guidelines.

The duration of a licence rarely leads to competition concerns in itself, although it can be problematic where restrictions continue to apply to a licensee after a licensed right has expired.

Exclusivity may be permitted, depending on the market context; a licensor can also generally prevent licensees from actively soliciting customers from other countries. However, if a licence confers absolute territorial protection, it is likely to be found anticompetitive. Prohibitions in internet selling are treated as restrictions on passive sales, and are usually prohibited.

Direct or indirect non-compete obligations that last longer than five years are specifically excluded from the Vertical Agreements Block Exemption (applicable to brand licences contained in distribution agreements). Licensors are not permitted to prevent licensees from exploiting their own technology, but other non-compete obligations are permitted under the TTBER.

Exclusive grant-back provisions, where the licensee is required to assign or license improvements back to the licensor on an exclusive basis, are likely to breach competition law. Non-exclusive grant-backs are permitted under the TTBER.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

The Competition and Markets Authority (the UK's competition regulator) has held in *Paroxetine* – Case CE-9531/11, that patent settlement agreements which delay entry of a generic drug in return for value transfers (a 'pay-for-delay' deal) breached the prohibition against anticompetitive agreements and amounted to an abuse of the patentee's dominant position. Similar decisions have been reached by the European Commission and the General Court of the EU; these are binding on UK courts.

Certain patent life-cycle management strategies in the pharmaceutical sector have also been held to be anticompetitive. 'Product hopping', which encourages a switch from a product for which a patent is about to expire to a newly patented product with no generic alternatives, has been held anticompetitive where the company recommending the switch intends to limit generic competition (see *Reckitt Benckiser*, Case CA98/02/2011).

In Case C-170/13, *Huawei v ZTE*, the Court of Justice of the EU has held that in certain circumstances it may be anticompetitive for holders of standard essential patents that have committed to license those patents on 'FRAND' terms to seek injunctions against potential licensees. What constitutes 'FRAND' terms and the application of the *Huawei v ZTE* criteria is currently (December 2016) being considered by the English High Court in *Unwired Planet v Huawei*.

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnities are generally enforceable and are commonly found in licence agreements as a way of mitigating losses without resorting to other principles of contract and tort, which may be more difficult to

prove, such as causation. Insurance coverage is available for those providing indemnities, and will be subject to the terms and conditions of the insurer.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Parties will frequently waive or limit their liability, and such limitations will generally be enforceable provided that they are seen as fair and reasonable under the Unfair Contract Terms Act 1977 (UCTA). The test for fairness and reasonableness takes into account all the circumstances which were or which ought reasonably to have been known or in the contemplation of the parties when the contract was made. Schedule 2 of UCTA provides guidelines as to the application of the test, and lists such factors as bargaining position and trade customs. Liability for death or personal injury as a result of negligence cannot be limited under any circumstances.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

In England and Wales, the principle of freedom of contract also applies to the right to terminate without conditions or limitation, subject to the terms of the contract itself. Wrongful termination may result in damages for breach of contract. Licensing relationships are not treated any differently in this respect.

Compensation may be owing to a 'commercial agent' under the Commercial Agents (Council Directive) Regulations 1993 for termination of their continuing authority to negotiate a sale or purchase of goods on behalf of a principal. Consequently, most international licensing contracts will be structured so as to avoid the licensee coming under the definition of 'commercial agent'. The English courts will only apply the laws of agency where there is an agreement which establishes an agent-principal relationship (ie, where the agent is empowered to bind the principal, as opposed to a mere licensing relationship (see *VLM Holdings Limited v Ravensworth Digital Services Limited* [2013])).

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

Without an agency relationship, a sub-licence will only be as good as the head-licence. However, as the case of *VLM Holdings Limited v Ravensworth Digital Services Limited* [2013] has held, if the court finds an agency relationship exists then the sub-licence may not terminate on termination of the head-licence. The law in this area is subject to evolution. In order to protect the parties' positions, IP owners should ensure that the effect of termination of a head-licence is clearly stated with respect to any sub-licences.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

Upon a licensee becoming insolvent, an administrator will be appointed to take control of the licensee's assets. The administrator will then decide how those assets should be distributed to ascertain as much value as possible for the licensee's creditors. This is likely to include valuable assets such as licensed IP rights.

It is common for licensor's to structure licences to provide for express termination of the licence on administration or liquidation of the licensee. In this way, the licensor can protect valuable IP assets.

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

It is common in international licensing agreements for the parties to choose a governing law of a jurisdiction other than their own. There are no specific restrictions in this regard in relation to the UK. When drafting the governing law provisions, the parties should take into account conflicts of laws principles and mandatory laws.

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

Parties are free to agree to submit their disputes to arbitration. Alternative dispute resolution mechanisms are encouraged by the Civil Procedure Rules (which govern civil litigation in England and Wales). The parties may also agree to have the hearing conducted in a jurisdiction of their choosing. When agreeing to arbitration of intellectual property disputes, the parties should carefully consider the varying forms of dispute which may occur to ensure that such a clause does not fall foul of public policy restrictions on the arbitrability of disputes. In the UK, the validity of an intellectual property right is arbitrable, although the award will only bind the parties to the arbitration. As the position on this varies from jurisdiction to jurisdiction, the parties should ensure that this is taken into account in their governing law and jurisdiction clauses.

Arbitration is a consensual process and so collective or class actions are not a feature of arbitration in this jurisdiction, but in certain instances it may be possible for parties with similar or related disputes to take part in the same proceedings. Neither the courts nor an arbitral tribunal have the power to consolidate proceedings unless all parties have agreed to this or have, in their respective arbitration clauses, agreed to give this power to the arbitral tribunal (see *Elektrim SA v Vivendi Universal SA* (No. 2) [2007] and section 35 Arbitration Act 1996). Parties should be aware that the rules of certain arbitral institutions, such as the London Court of International Arbitration, provide the tribunal with the power to add third parties to proceedings.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

The United Kingdom is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards. Accordingly, court judgment or arbitral awards are ordinarily enforceable.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available and is a frequent feature in IP and licensing disputes. Provided that the ordinary conditions for a contract are met, a party may waive their entitlement to claim specific heads of damages such as loss of profits and indirect losses, or the availability of injunctive relief.

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Overview

- 1 Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?**

Foreign entities are generally not restricted from establishing entities within the United States, provided that they comply with state registration requirements.

Foreign entities are also generally not prohibited from entering into licence agreements, even if they do not establish an entity within the United States, provided that they are not subject to a trade embargo. However, the Bureau of Export Administration, Department of Commerce, Department of State, Nuclear Regulatory Commission, Department of Energy, Drug Enforcement Administration, Food and Drug Administration, Department of Agriculture, inter alia, regulate the exportation and importation of certain articles. For example, licence agreements with foreign entities must be in compliance with agency requirements. Further, licence agreements must also be in compliance with the tax provisions of the United States as well as any international treaties.

Kinds of licences

- 2 Identify the different forms of licence arrangements that exist in your jurisdiction.**

The types of licensing arrangements that exist in the United States include technology transfer licensing, know-how and trade secret licensing, patent licensing, trademark licensing, trade dress licensing, industrial design licensing, copyright licensing, software licensing and right of publicity licensing. A right of publicity is the right to control commercial use of one's name, image, likeness or other use of one's identity.

Patents that are part of a standard, namely, standard essential patents (SEPs), may be subject to 'fair, reasonable, and non-discriminatory' licensing practices (FRAND/RAND licensing).

Licensing arrangements may be exclusive or non-exclusive (by area or technology), and may provide various forms of compensation, including monetary and non-monetary forms of compensation.

Monetary compensation may include lump sum payments or royalties, or both, while non-monetary compensation may include cross-licensing of technology or intellectual property, an equity interest in property or technology sharing, or any combination of these. Further, technology may be licensed individually or, under certain limited circumstances, collectively in pools.

Law affecting international licensing

- 3 Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.**

Generally, terms of an international licensing relationship are not governed by legislation. For instance, legislation does not impose any

limitations on the fee that may be charged by a licensor. Additionally, the duration of the contractual term is generally not controlled by legislation. For instance, there is no limit on the duration of a licence for some types of intellectual property, such as trademarks. However, where the intellectual property has a limited life, for instance a patent, licences that require royalty payments after the patent has expired are generally considered unenforceable (see question 9).

With respect to inventions made in the performance of work under a government contract, federal law requires that the government shall have at least a non-exclusive, non-transferable, irrevocable, paid-up licence to practise, or have practised for or on behalf of the United States, any subject invention throughout the world; that no exclusive licence be granted to anyone who does not manufacture in the United States; and that the government may have additional rights to sublicense any foreign government or international organisation pursuant to existing treaties or agreements identified in the contract, or to otherwise effectuate such treaties or agreements. In the case of long-term contracts, government contracts may also provide rights with respect to treaties or agreements to be entered into by the government after the award of the contract.

There are no general requirements relating to an international licensing relationship that certain products be purchased locally. However, it is common practice that state-funded public universities license their intellectual property to local businesses within the state to stimulate the local economy.

- 4 What pre-contractual disclosure must a licensor make to prospective licensees? Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?**

Generally, there are no pre-contractual disclosure requirements in the United States imposed on a licensor in favour of a potential licensee. A licensor is expected to act in good faith and not misrepresent any material facts; this obligation includes disclosing that a patent is part of a 'standard', and that it is subject to FRAND/RAND licensing. With respect to standards and FRAND/RAND licensing, an owner of SEPs is typically required to offer FRAND/RAND licensing terms to third parties, and the SEP owner should do so before filing any suit. Additionally, in most cases, there is no requirement to register a grant of international licensing rights with any authorities in the United States. However, certain contracts may require registration with a governmental agency, such as contracts relating to certain nuclear or hazardous materials. Additionally, any manufacturer or exporter of articles or services found on the United States Munitions List of restricted articles and services is required to register with the US State Department's Directorate of Defense Trade Controls.

- 5 Are there any statutorily- or court-imposed implicit obligations in your jurisdiction that may affect an international licensing relationship, such as good faith or fair dealing obligations, the obligation to act reasonably in the exercise of rights or requiring good cause for termination or non-renewal?**

Yes. Parties to a contract are expected to act in good faith. Also, the present trend is that SEPs are subject to FRAND/RAND licensing, which creates a contractual obligation to offer such licensing rates and terms

to third parties (see, for instance, question 4). A contract that has been obtained through fraud is voidable. An example of where fraud may come into play is where the potential licensor does not disclose that the patent or patents to be licensed are part of a standard (see, for instance, question 12). Further, a contract of adhesion, namely a contract that is so imbalanced in favour of one party over the other that there is a strong implication it was not freely bargained for, may be held unenforceable if found to be unconscionable, unduly oppressive or against public policy.

With respect to ambiguity in a contract, the ambiguity is usually construed against the drafter. To avoid this, a drafter can include a section in the contract that states that each party to the contract assisted in drafting the contract, or that each party has been represented by counsel of its choice in negotiating the contract. A drafter may also include a statement in the contract that the contract shall be deemed to have been negotiated at arm's length, with the advice and participation of counsel, and prepared at the joint request, direction and instruction of the parties, and shall be interpreted in accordance with its terms without favour to either party.

Termination or non-renewal of a licence agreement will be controlled by the terms of the agreement. Although parties to a contract are expected to act in good faith, an agreement can provide that for termination at will, or under prescribed conditions agreed to by the parties, good faith or (more often) reasonableness is required. Most states have laws making any agreement that is silent as to duration terminable at will whether written, oral or implied. One exception concerns termination of transfers and licences granted by an author of a copyrighted work. See 17 U.S.C. § 203. Under § 203, a non-exclusive licence agreement that does not specify the duration of the agreement is not terminable at will; rather it can be terminated by the author only during a period of five years beginning at the end of 35 years from the date of execution of the grant; or, if the grant covers the right of publication of the work, the period begins at the end of 35 years from the date of publication of the work under the grant or at the end of 40 years from the date of execution of the grant, whichever term ends earlier. § 203(a)(3).

6 Does the law in your jurisdiction distinguish between licences and franchises? If so, under what circumstances, if any, could franchise law or principles apply to a licence relationship?

Yes. By legal definition, every franchise requires a trademark licence; however, not every trademark licence creates a franchise relationship. Generally speaking, a franchise is a licence where the licensor controls the licensee and benefits from that control. Franchises are governed by federal and certain state laws and regulated by the Federal Trade Commission (FTC) and by the states in which the franchise does business. Whether the federal franchise rules apply to a particular business relationship depends upon whether the relationship meets the rules' definition of a 'franchise' and whether an exemption or exclusion applies. Under the rules, a commercial business arrangement will be considered a 'franchise' if it satisfies three definitional elements, namely, the franchisor must promise to provide a trademark or other commercial symbol, promise to exercise significant control or provide significant assistance in the operation of the business and require a minimum payment of at least US\$500 during the first six months of operations.

Intellectual property issues

7 Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

Yes. Yes. Yes.

8 Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

There is no distinction in this regard between domestic and foreign licensors. In 2007, the US Supreme Court in *MedImmune v Genentech*, 549 US 118 (2007) held that a patent licensee can challenge the validity of a patent while preventing the patent licensor from counterclaiming for patent infringement, thereby shifting the balance of power in a patent licence agreement towards a patent licensee. In order to recapture

some of that power, patent licensors may attempt to receive greater compensation up-front and may further include provisions that, when the validity of a licensed patent is challenged, provide for increased compensation for the licensor, include a right for the licensor to terminate the patent licence agreement, include a right to reduce the scope of a licence agreement (ie, an exclusive licence may be converted to a non-exclusive licence) or require the patent licensee to bear the costs of litigation. 'No challenge clauses' to a patent's validity entered into prior to litigation have been held unenforceable. However, such 'no challenge clauses' included in an agreement settling litigation have been upheld, presumably because the parties had explored the merits of the patent's validity prior to or as part of their settlement discussions.

9 What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

After a patent expires, the subject matter disclosed therein enters the public domain. As such, there can no longer be an exclusive right, licence or privilege to use the subject matter. In this regard, the US Supreme Court has held that royalty agreements that extend beyond the expiration of the term of a licensed patent are unlawful per se (*Brulotte v Thys*, 379 US 29 (1964)). As discussed in question 12, the Supreme Court reviewed this issue and affirmed its prior decision, in *Kimble v Marvel Entertainment, LLC*, 576 US 1, 135 S Ct 2401 (2015), but also noted that *Brulotte* did not prevent a careful contract drafter from contracting around the prohibitions of *Brulotte*. (See *Kimble*, 135 S Ct at 2408.)

For example, if a royalty agreement includes know-how, technology or trade secrets, in addition to a licensed patent, post-expiration royalties may be collected. Further, when multiple patents are lawfully and collectively licensed, royalties can be levied until the expiration of the term of the last patent.

In the United States, trademark rights derive from actual use in commerce. Therefore, trademark rights are valid as long as the mark is used in connection with the relevant goods or services, regardless of whether the mark is registered. Consequently, as long as the mark is used in the relevant territory, trademark rights may be licensed and levied. However, it is highly advisable to register and maintain trademark registrations in the United States Patent and Trademark Office (USPTO), as this provides, inter alia, nationwide notice to third parties as well as a presumption of validity in the event of a trademark dispute.

With regard to copyright registration in the United States, there are specified terms of a number of years following creation or publication to perfect an ownership in a registered US copyright, after which the work will fall into the public domain. For example, a work created on or after 1 January 1978 lasts for the life of the author and 70 years after the author's death. For a joint work prepared by two or more authors for a work that is not a work made for hire, the copyright lasts for the life of the last surviving author and 70 years after the surviving author's death. For works made for hire, the copyright lasts for 95 years from the year of its first publication, or 120 years from the year of its creation, whichever expires first. Therefore, once a copyright registration lapses, the work falls into the public domain and as such cannot continue to be levied.

If, however, all of the intellectual property rights underlying the licence are found invalid or expire, there would be no extant right to exclude others from practising the intellectual property requiring a licence. As such, a former licensee may freely compete with the former licensor at that point.

10 Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

A US trademark application may be based upon actual use in the United States, or a corresponding non-US registration, if the applicant's country of origin is a party to a treaty such as the Paris Convention or an agreement with the United States that provides for registration based on ownership of a foreign registration. The corresponding non-US registration must be for the same mark, for the same goods, and owned by the same owner.

For US applications based upon non-US registrations, although the original non-US registration is not required to be submitted with the application, a true copy of the corresponding non-US registration must be submitted to the USPTO before the US registration will be issued. Further, it is not necessary to demonstrate use in the United States prior to registration for applications based upon non-US registrations. Also, the USPTO will not require proof of use in the country of origin. However, in order to maintain the US trademark registration, the owner will be required to prove use of the mark in US commerce by submitting a declaration of use and specimen of use between years five and six following the US registration and every 10 years thereafter from the registration date.

With regard to copyrights, the United States is a member of the Berne Convention. Consequently, registration is not required for protection for non-US works created in other member countries. However, it has been held in US courts that statutory damages and attorneys' fees are only available for works registered in the United States.

An original registration or evidence of use is not necessary to obtain a patent. However, if a patent application is filed in a foreign jurisdiction, an application must be filed in the United States within 12 months of the filing date in the foreign jurisdiction.

11 Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Yes. In the United States, trademark rights derive from actual use in commerce. Therefore, trademark rights are valid as long as the mark is used in connection with the relevant goods or services, regardless of whether the mark is registered. However, the owner's rights in an unregistered mark are limited to the geographical area within which it has been used or the areas into which it may be reasonably expected to expand. Therefore, the licensor may not license rights to use the mark beyond its scope of geographical use. Consequently, it is highly advisable to register and maintain trademark registrations in the USPTO as this provides nationwide notice to third parties as well as a presumption of validity in the event of a trademark dispute. In the United States, there is no legal requirement that a trademark licence be recorded.

In addition, a trademark may be registered at the state level in the United States. However, each state's laws concerning trademark registration and rights differ, meaning that the protection provided by a trademark registration in one state may differ from that provided by another.

Likewise, copyright rights may be licensed without a registration. Under US law, an original work fixed in a tangible medium of expression is automatically protected upon creation. However, registering the work provides several legal benefits and registration is a prerequisite to filing an infringement suit in a US federal court for works of US origin.

12 Are there particular requirements in your jurisdiction: for the validity of an intellectual property licence; to render an intellectual property licence opposable to a third party; or to take a security interest in intellectual property?

An intellectual property licence must not violate antitrust law or involve patent misuse. Agreements that tie a staple good to a patent, or which effectively extend the term of a patent, thereby requiring royalty payments after expiration of the patent, are patent misuse per se, while agreements that are anti-competitive in nature may be found to violate antitrust law. Additionally, violations of a standard body's rules can result in patent unenforceability.

In *Kimble v Marvel Entertainment, LLC*, 576 U.S. 1, (2015), the US Supreme Court declined to overturn *Brulotte v Thys*, 379 US 29 (1964), which held that a patentee's use of a royalty agreement extending royalty payments beyond the expiration date of the patent is unlawful per se as noted in question 9. The Supreme Court, however, noted that careful licence drafters could work around *Brulotte*; for example, the Court noted that '*Brulotte* poses no bar to business arrangements other than royalties – all kinds of joint ventures, for example – that enable parties to share the risks and rewards of commercializing an invention' (*Kimble*, 135 S. Ct. at 2408).

In order to render an intellectual property licence opposable to a third party, the third party must have standing to challenge the validity of a licence agreement, that is, demonstrate actual or imminent injury, a causal connection between the injury and the licence agreement, and that a favourable decision will provide redress.

In order to protect an ownership interest in intellectual property against subsequent purchasers and mortgagees for value, an assignment or other documents should be recorded with either the USPTO or Copyright Office. (See, eg, 35 U.S.C. § 261.) In order to perfect a security interest in a patent or trademark against future lien creditors or owners, a state filing should be made in accordance with the Uniform Commercial Code. In order to perfect a security interest in a registered copyright, it should be recorded in the Copyright Office (*In re Peregrine Entertainment Ltd*, 116 Bankr 194 (CD Cal 1990)).

13 Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

Whether a foreign owner or licensor of intellectual property can bring proceedings must be answered by first determining which party has 'standing', namely, who may bring suit. A foreign owner or licensor of intellectual property has standing to institute a proceeding against a third party for infringement without joining the licensee provided that the foreign owner did not grant an exclusive licence of all rights in the intellectual property. Typically, all joint owners of the intellectual property are required to join together to institute proceedings against a third party for infringement.

A licensee can institute an action against an infringer without the consent of the licensor or owner only if the licensee is an exclusive licensee of all rights in the intellectual property, and has the right to sue for patent infringement. In this regard, a right-to-sue clause, taken alone, generally does not entitle a non-exclusive licensee with the right to sue. Further, an exclusive licensee can be denied the right to sue when that right, or any other right in the intellectual property, is retained by the owner or licensor, namely, the licence is not, in fact, 'exclusive' in that it is an assignment of less than all rights.

The Federal Circuit has held, in *Azure Networks LLC v CSR PLC*, 771 F3d 1336 (Fed Cir 2014), vacated on different grounds, 135 S.Ct 1846, that, a patent owner lacked standing to join a suit for patent infringement brought by its licensee against an accused infringer even though the patent owner retained the right to royalties, right to practise the patent, right to terminate the agreement, and a future reversionary interest in the patent. In so holding, the court noted that the patent owner had transferred substantially all of its patent rights to the licensee and therefore lacked standing to join the patent-infringement suit. The court focused on the fact that the patent owner completely transferred control over litigation and licensing of the patent to the licensee in ruling that the patent owner lacked standing to join a patent-infringement suit. The Federal Circuit has also recently held, however, in *Alps South, LLC v Ohio Willow Wood Co*, 787 F3d 1379 (Fed Cir 2015), that an exclusive licensee in a field of use having the right to exclude, transfer, and enforce the patents did not have standing to maintain an infringement action without the patent owner.

Under US trademark law, 'any person who believes that he or she is or is likely to be damaged(...)' by the false or misleading use of a trademark, may bring an action under the Lanham Act, 15 USC section 1125(a). Therefore, unless contractually prohibited, a trademark licensee may bring an action against an infringer under this section of the Lanham Act without the consent of the owner or licensor.

14 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

Yes, however, under the Lanham Act, in the United States a trademark licensor must supervise and control the licensee's use of its mark in order to protect the public's expectation that all products sold under a particular mark are from a common source and of like quality. Where a licensor does not exercise reasonable quality control over a licensee, the mark may be deemed abandoned owing to the 'naked licensing'. *Tumblebus Inc v Cranmer*, 399 F3d 754, 764-65 (6th Cir. 2005); see also *Dawn Donut Co v Hart's Food Stores, Inc*, 267 F2d 358, 367 (2d Cir. 1959).

The majority of US case law has held that a trademark licensee may not sub-license a mark to a third party without first obtaining the licensor's express consent. Therefore, generally the right to sub-license must be granted contractually.

15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

The America Invents Act of 2011 changed the United States' patent system from a first to invent to a first to file 'plus' system, which applies to all patent applications filed in the United States that have an earliest effective filing date on or after 16 March 2013. The Act created additional post-grant proceedings (inter partes review and post grant review) to challenge issued patents before the USPTO, and leaves ex-parte re-examination as an option. Derivation proceedings were also created, in which the USPTO can decide if one inventor derived the invention in his or her application from another inventor. Post-grant review applies to patents having an earliest effective filing date of 16 March 2013 or later; and inter partes review (which replaced inter partes re-examination) became effective 16 September 2012 and applies to all patents regardless of filing date. More than 5,600 such proceedings have been filed to date, with a large number of patents being invalidated as a result of such proceedings; USPTO statistics currently show that about 50 per cent of requests for IPR are granted, and in those proceedings where trial has been completed and a final written decision reached, in about 70 per cent of the instituted proceedings all of the instituted claims were found unpatentable and in another 16 per cent of the instituted proceedings some of the instituted claims were found unpatentable.

Patent applications can be licensed in the United States. In this regard, since a patent application has not removed any property rights from the public domain, courts have found that a patent application does not provide as much leverage as a patent. Accordingly, courts have held that federal patent law does not pre-empt state contract law, and thus that the term of a patent licence agreement may continue if the patent application fails (see *Aronson v Quick Point Pencil Co*, 440 U.S. 257 (1979)).

16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

The US Supreme Court has long held that the execution of a physical process, even when controlled by a computer program, is patent-eligible subject matter. Mathematical formulae and abstract ideas, in and of themselves, are not patentable. However, the mere presence of software does not render an otherwise patentable process unpatentable (*Diamond v Diehr*, 450 US 175 (1981)). In 2010, the Supreme Court reaffirmed that processes, such as business methods and software, are patentable (*Bilski v Kappos*, 561 US 593 (2010)). The Court held that a process is surely patent-eligible subject matter if it satisfies the 'machine or transformation test', namely, if it is tied to a particular machine or apparatus, or transforms a particular article into a different state or thing. The Court, however, rejected the machine or transformation test as the sole test for determining patent-eligible processes. In *CLS Bank International v Alice Corp Pty Ltd*, 134 SCt 2347 (2014) the Supreme Court held invalid computerised method and system claims directed to a method of reducing settlement risk via trading with a third party. The Supreme Court stated that because the claims at issue were drawn to the abstract idea of intermediated settlement, the inclusion of generic computer implementation (ie, a data storage unit, controller and processing system) did not make such an idea patentable.

In 2016, the Federal Circuit court rendered several decisions to reiterate that '[s]oftware can make non-abstract improvements to computer technology just as hardware improvements can.' *Enfish, LLC v Microsoft Corp*, 822 F.3d. 1327 (Fed Cir 2016). The Federal Circuit held that if claims at issue recite unconventional rules or specific processes that result in a specific technological improvement, the claims are non-abstract and patent eligible. See, for example, 837 F.3d 1299 (Fed Cir 2016); and *Enfish v Microsoft*. The Federal Circuit also held that even if claims are not directed to a specific improvement of technological operation or functionality, claims reciting an unconventional arrangement of claim elements to solve a technology-based problem are patent eligible. See, for example, *Bascom Global Internet Services, Inc v AT&T*

Mobility LLC, 827 F.3d 1341 (Fed Cir 2016); and *Amdocs (Israel) Ltd v Openet Telecom, Inc*, 2016 U.S. App. LEXIS 19593 (Fed Cir 2016). In its decisions, the Federal Circuit relied on the patent's written description to identify the resulting technological improvement or solution in finding for patent eligibility. See, for example, *Amdocs v Openet*; and *Enfish v Microsoft*.

The Supreme Court has further held that 'anything under the sun that is made by man', including a living, human-made organism, is patent-eligible subject matter (*Diamond v Chakrabarty*, 447 US 303 (1980)). However, naturally occurring organisms, other products of nature, and laws of nature are not patent eligible. In *Association for Molecular Pathology v Myriad Genetics, Inc*, 133 SCt 2107 (2013), the Supreme Court held that 'isolated' DNA molecules are products of nature and, thus, not eligible for patent protection, whereas some cDNA molecules are eligible. In *Prometheus Laboratories, Inc v Mayo Collaborative Services*, 132 SCt 1289 (2012), the Supreme Court held invalid claims directed to administering a drug and determining the level of a metabolite. Both were considered to be directed to laws of nature and, thus, not patentable subject matter under 35 USC section 101. In 2014 the Federal Circuit held that a genetic copy of a naturally occurring sheep is not patent eligible because the cloned sheep did not possess markedly different characteristics from sheep found in nature. In *re Roslin Institute (Edinburgh)*, 750 F.3d 1333, 1337 (Fed Cir 2014).

Section 33 of the America Invents Act of 2011 (see, eg, 35 USC section 101 advisory notes) now provides that no patent may be issued on a claim directed to or encompassing a human organism. This preclusion applies to any application for a patent that is pending on, or filed on or after, the date of the enactment of the Act, but does not affect the validity of any patent issued before the date of the enactment of the Act.

Additionally, section 14 of the America Invents Act of 2011 (see, for example, 35 USC section 102 advisory notes) provides that tax strategies are deemed within the prior art, such that a strategy for reducing, avoiding or deferring tax liability, whether known or unknown at the time of the invention or application for the patent, shall be deemed insufficient to differentiate a claimed invention from the prior art. The section has two exceptions, such that the section does not apply to a method, apparatus, technology, computer program product or system, that is used solely for preparing a tax or information return or other tax filing, including one that records, transmits, transfers or organises data related to such filing or is used solely for financial management, to the extent that it is severable from any tax strategy or does not limit the use of any tax strategy by any taxpayer or tax adviser.

Further, although business methods remain patentable in the US, section 18 of the America Invents Act of 2011 provides for a 'transitional post-grant review proceeding' to review the validity of covered business method patents. This review proceeding makes it easier to challenge business method patents as not satisfying 35 USC section 101, and over 420 covered business method petitions have been filed so far.

Finally, the USPTO continues to provide guidance on examination of patentable subject matter under 35 USC section 101 in view of the recent court decisions, and we expect more guidelines will be forthcoming. (See, eg, the July 2015 Update: Subject Matter Eligibility at www.uspto.gov/sites/default/files/documents/ieg-july-2015-update.pdf and the May 2016 Update: Memorandum – Formulating a Subject Matter Eligibility Rejection and Evaluating the Applicant's Response to a Subject Matter Eligibility Rejection at <https://www.uspto.gov/sites/default/files/documents/ieg-may-2016-memo.pdf>.)

17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

Yes. In the United States there is a Uniform Trade Secrets Act (UTSA), which has been enacted, in one form or another, by most, but not all, of the states, as well as the District of Columbia. The UTSA defines a trade secret as information, including a formula, pattern, compilation, programme, device, method, technique or process, that derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

The states that do not follow the UTSA generally follow the First Restatement of Torts, which considers the following factors to determine whether information is a trade secret:

- the extent to which the information is known outside the holder's business;
- the extent to which it is known by employees and others within the business;
- the extent of the measures taken to guard the secrecy of the information;
- the value of the information to the holder and its competitors;
- the amount of effort or money expended in developing the information; and
- the ease or difficulty with which the information could be properly acquired or duplicated by others.

Generally, remedies for misappropriation of a trade secret include damages and injunctive relief. Under certain circumstances, the UTSA permits enhanced damages (up to two times actual damages) and attorneys' fees.

Additionally, the Defend Trade Secrets Act (DTSA) was signed into law on 11 May 2016 and amends the Economic Espionage Act, 18 USC section 1831 et seq. The DTSA creates a federal civil cause of action for trade secret misappropriation. While the DTSA does not replace the various state trade secret laws, it provides a uniform federal system for litigation of trade secret misappropriation or theft as an additional cause of action. The DTSA enables plaintiffs to seek an ex parte seizure order, permitting an aggrieved party to seek relief from the court to seize misappropriated trade secrets without providing prior notice to the alleged wrongdoer. A seizure order may only be issued in 'extraordinary circumstances' after a plaintiff establishes that other remedies, including an injunction, would be inadequate. To address concerns about abuse of seizure orders, the DTSA permits defendants to seek damages for a wrongful seizure.

In addition to issuance of an ex parte seizure order in extraordinary circumstances, the DTSA provides that a court may grant an injunction to prevent any actual or threatened misappropriation or award monetary damages or both. Further, the court may grant either (i) 'damages for actual loss caused by the misappropriation of the trade secret' and any additional 'unjust enrichment caused by the misappropriation of the trade secret that is not addressed in computing damages for actual lost' or (ii) 'a reasonable royalty for the misappropriation's unauthorised disclosure or use of the trade secret' (18 U.S.C. §1836(3)(B)). The court may also award exemplary damages (up to double damages) and reasonable attorney's fees.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

In the United States, generally, a licensor can restrict disclosure or use of trade secrets and know-how by the licensee or third parties both during and after the term of the licence agreement. Such terms are typical in a licence agreement relating to trade secrets and know-how. With respect to improvements, there is usually a contractual distinction between improvements and the underlying trade secret or know-how. As such, improvements and the underlying trade secret or know-how should be addressed separately in licensing agreements; however, it is not unusual for parties to agree to the same rights or obligations with respect to these items.

19 What constitutes copyright in your jurisdiction and how can it be protected?

Copyright protection automatically applies to 'original works of authorship fixed in any tangible medium of expression', 17 USC section 102. Works of authorship include literary works; musical works, including any accompanying words; dramatic works, including any accompanying music; pantomimes and choreographic works; pictorial, graphic, and sculptural works; motion pictures and other audiovisual works; sound recordings; and architectural works.

Copyright protection does not extend to any idea, procedure, process, system, method of operation, concept, principle or discovery, regardless of the form in which it is described, explained, illustrated

or embodied in such work. Computer software code is subject to copyright protection as a literary work, whereas manifestations of the software, such as the visual display of the software, may be subject to copyright protection and registration as an audiovisual work.

Copyright protection also applies to compilations and derivative works, and restored works, but does not apply to any work of the US government. The exclusive rights in copyrighted works, and the limitations on the exclusive rights and scope of copyrights, are set forth in 17 USC sections 106 to 122.

Under US law, an original work fixed in a tangible medium of expression is automatically protected upon creation. However, registering the work provides several legal benefits. First, registration is a prerequisite to filing an infringement suit in US federal court for works of US origin. Registration also provides the opportunity to recover statutory damages and attorneys' fees in court. Additionally, a work that is registered within five years after the date of first publication will constitute prima facie evidence in court that the copyright is valid.

20 Is it advisable in your jurisdiction to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works that the licensee may have contributed to?

Yes. In the United States, exclusive rights in copyright are not transferrable absent a writing. Therefore, it is advisable to require the contractual assignment of copyright by the licensee to the licensor for any artwork, software improvements and other works to which the licensee may have contributed. Additionally, a 'work made for hire' under the US copyright laws would be owned by an employer where a work was prepared by an employee within the scope of his or her employment, or in certain situations (ie, 'a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas') where the parties expressly agree in a written instrument that the work shall be considered a work made for hire. However, if the employee is to work as an independent contractor, the employer must claim ownership of the material created by the contractor via an assignment rather than relying on employer for hire status.

On the other hand, a non-exclusive licence may be granted orally, or may be implied from conduct.

Software licensing

21 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

In the United States, a perpetual software licence would be valid.

22 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

Yes. US export control laws control the conditions under which certain information and technologies can be transmitted overseas to anyone, including US citizens, or to a foreign national on US soil. The laws are implemented through the Export Administration Regulations (EAR) and International Traffic in Arms Regulations.

Export controls usually arise where the nature of the export has actual or potential military applications or economic protection issues; where the government has concerns about the destination country, organisation or individual; or where the government has concerns about the declared or suspected end-use or the end-user of the export. Unless a 'license exception' under the EAR is applicable, the export of computer software may require a licence. Violation of US Export Regulations is punishable by a fine or imprisonment or both.

23 Who owns improvements and modifications to the licensed software? Must a software licensor provide its licensees bug fixes, upgrades and new releases in the absence of a contractual provision to that effect?

Generally, the parties to a licence agreement negotiate who owns any improvements or modifications to licensed software. Open source software typically allows modifications and derived works, but requires

that the modifications and derived works be distributed under the same terms as the licence of the original software. One should always determine whether the licence that accompanies or is packaged with purchased software prohibits modification.

A software licensee may obtain updates in the absence of a contractual provision to that effect; however, if there is a contractual provision that prohibits a licensee from obtaining updates that provision will govern. Ancillary to the licensed software, the licensor may include, or offer separately, maintenance agreements that typically provide minor and sometimes major updates, and may or may not include major upgrades.

24 May a software licensor include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licensed software?

Yes. In the United States, under certain circumstances, a software licensor can include a process or routine to disable automatically or cause unauthorised access to disable the licensed software. The most typical situation is a free trial, where a party is permitted to use the software for a limited time or with limited features. If the party does not purchase the product before the expiration of the trial period, the software is then disabled. However, a software licensor who wrongfully disables, erases or otherwise adversely affects the licensed software is liable for damages to the licensee.

25 Have courts in your jurisdiction recognised that software is not inherently error-free in determining the liability of licensors in connection with the performance of the licensed software?

Courts in the United States have recognised that computer software companies and their customers are inherently aware that software is not completely and totally error-free. However, it is common for software providers to expressly state in standard licence agreements that the provider does not warrant that the software will be 'error-free' or 'uninterrupted'.

26 Are there any legal restrictions in your jurisdiction with respect to software that, without the prior consent or knowledge of the user, interferes with the users' control of the device?

Such restrictions are governed by the contract between the software licensor and the user (licensee). Generally, features such as implementation of updates and upgrades are addressed in a shrink wrap licence or click wrap licence. Software licences typically require prior consent by the user for implementation of updates and upgrades; however, certain licence agreements provide for the licensor to implement such changes without the users' prior consent. Further, certain agreements allow for the user to control the licensor's automatic updating settings, that is, the user may 'opt-in' and permit automatic updates or 'opt-out' and require manual installation of updates and upgrades.

27 Have courts in your jurisdiction restricted in any manner the enforceability or applicability of the terms and conditions of public licences for open source software (ie, GNU and other public licence agreements)? Have there been any legal developments of note in your jurisdiction concerning the use of open source software?

In the United States, open source software is copyrightable subject matter, and public licences for open source software typically specify the extent to which 'copying' is permitted and under what terms and conditions.

To date, courts have not restricted the enforceability or applicability of terms and conditions of public open source software licences in any different manner than historical contract law, but rather have allowed parties to contract freely regarding restrictions of use and have enforced those restrictions.

Royalties and other payments, currency conversion and taxes

28 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

Generally speaking, the United States does not have any legislation governing royalty rates, although there are rules and regulations relating to distribution of music copyright. The Federal Circuit in the US has held that as a matter of law, the 25 per cent rule of thumb is a fundamentally flawed tool for determining a baseline royalty rate in a hypothetical negotiation. Further, any evidence relying on the 25 per cent rule of thumb is inadmissible (*Uniloc v Microsoft*, 632 F3d 1292 (Fed Cir 2011)). However, asserting patents in industry standards that are subject to FRAND/RAND licensing creates a contractual obligation to offer FRAND/RAND licensing terms to third parties. (See *Microsoft Corp v Motorola, Inc*, 795 F3d 1024, 1029 (9th Cir 2015); *Ericsson Inc v D-Link Systems, Inc*, 773 F3d 1201 (Fed Cir 2014); *Apple Inc v Motorola Inc*, 757 F3d 1286 (Fed Cir 2014).) Royalties should be based on the contribution of the patents-in-suit to the standard-practising component and the contribution of that component to the accused product as a whole.

Also, cases have held that a patentee may assess damages based on the entire market value of the accused product only where the patented feature creates the basis for customer demand or substantially creates the value of the component parts. *Versata Software, Inc v SAP Am, Inc*, 717 F3d 1255, 1268 (Fed Cir 2013). In the absence of such a showing, principles of apportionment apply. The smallest saleable unit approach is intended to produce a royalty base much more closely tied to the claimed invention than the entire market value of the accused products (*VirnetX, Inc v Cisco Systems, Inc*, 767 F3d 1308, 1327 (Fed Cir 2014)). Where the smallest saleable unit is, in fact, a multi-component product containing several non-infringing features with no relation to the patented feature, the patentee must do more to estimate what portion of the value of that product is attributable to the patented technology (*idem*).

There are also limits (generally set by each state) against charging interest rates above a statutory limit called 'usury limits'.

29 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

Subject to the tax withholding issue discussed in question 30, generally speaking, the United States does not have any restrictions on currency transfers, except that cash transfers in excess of US\$10,000 must be reported to the US Internal Revenue Service under anti-money laundering statutes. See 26 USC section 6050I and 31 USC section 5331.

30 In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

Generally speaking, foreign (non-US) companies are only subject to taxation on income from US business operations. The income subject to taxation generally includes any income from the sale of US real property, income connected with participation in an entity (eg, partnership) that engages in US business or income received as a beneficiary of an estate or trust so engaged. Under various tax treaties, a foreign company is taxable on a net basis only on income attributable to a 'permanent establishment' in the United States. All foreign companies are also taxed on a gross withholding basis on US-source portfolio income, for example, dividends, interest, rents and royalties. This source portfolio income includes royalties derived from US patents and other such intellectual property. International tax treaties often reduce the withholding tax rate, and are in place to prevent double taxation on the same income.

31 Can a judgment be rendered by courts in a foreign currency in your jurisdiction? If not, would a contractual indemnity for any shortfall to a foreign licensor owing to currency exchange fluctuations be enforceable?

Yes. At least, courts in the Third, Fourth, Sixth and Eighth Circuit Federal Courts of Appeal have noted that there is no prohibition on

awarding damages in foreign currency and have endorsed such practice in appropriate circumstances.

Competition law issues

32 Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Practices that restrict trade are prohibited by both US antitrust and patent laws. Generally speaking, the antitrust laws prohibit a business with a monopoly over certain products or services from abusing its dominant position or market power. Examples of the types of prohibited practices include bid rigging, predatory pricing, price fixing, product tying and vendor lock-ins.

With respect to patent licence agreements, specifically, there is the concept of 'patent misuse', which would render the patent unenforceable (with the exception of certain activities, see question 33). While patent misuse is similar to antitrust, it addresses broader activities. That is, the key inquiry will be whether the patentee has impermissibly broadened the scope of the patent grant with 'anticompetitive effect' by imposing conditions that derive their force from the patent.

33 Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions, and grant-back provisions?

Not all restrictions on competition from licence agreements are prohibited. That is, if the restrictions in the licence agreement do not violate the US antitrust laws, or constitute patent misuse, as discussed above in connection with question 32, they would be legal. Unlike the European courts, the US courts do not appear to have addressed the issue of 'internet sales prohibitions'.

US patent laws, however, specifically exclude certain activities from the ambit of patent misuse. Specifically, 35 USC section 271(d) states that:

... no patent owner otherwise entitled to relief for infringement or contributory infringement of a patent shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: (1) derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent; (2) licensed or authorised another to perform acts which if performed without his consent would constitute contributory infringement of the patent; (3) sought to enforce his patent rights against infringement or contributory infringement; (4) refused to license or use any rights to the patent; or (5) conditioned the licence of any rights to the patent or the sale of the patented product on the acquisition of a licence to rights in another patent or purchase of a separate product, unless, in view of the circumstances, the patent owner has market power in the relevant market for the patent or patented product on which the licence or sale is conditioned.

34 Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

In the United States, reverse-payments or 'pay-for-delay' arrangements whereby the patentee pays (or provides other value to) the accused infringer to delay market entry, which for the most part arise only in the pharmaceutical field, may be considered anticompetitive and prohibited. Because an allegedly infringing commercial product being marketed, sold or offered for sale is typically a requirement for bringing a patent infringement action, pay-for-delay arrangements typically are not an issue. However, pay-for-delay arrangements can arise in the pharmaceutical field due to the Hatch-Waxman Act's (Act) statutory framework that provides, inter alia, that submitting an Abbreviated New Drug Application seeking Food and Drug Agency (FDA) approval to market a generic drug is an artificial act of infringement. Under the so-called Bolar Amendments to the Act, it is not an act of infringement (even though otherwise infringing acts) for a generic manufacturer to develop a formulation and seek FDA approval; the

generic manufacturer, however, is not allowed to enter the market until it receives FDA approval, and the FDA will not provide final approval until resolution of the underlying patent infringement action or expiration of the 30 month stay even if the underlying litigation is still pending. See generally *GlaxoSmithKline v King Drug* 136 S Ct 2428 (2016).

In 2013, the Supreme Court rejected the FTC's argument in *FTC v Actavis, Inc.*, 133 S Ct 2223 (2013), that 'reverse payment settlement agreements are presumptively unlawful'. Rather, the Supreme Court held that courts 'reviewing such agreements should proceed by applying the "rule of reason", rather than under a "quick look" approach'. As such, the courts will have to find actual anticompetitive activities instead of a mere payment (monetary or otherwise) to hold a pay-for-delay arrangement in violation of the competition laws. While the various US Appeals Courts have addressed the issue to varying degrees, the Supreme Court refused to hear the *GlaxoSmithKline v King Drug*, 136 S.Ct. 2428 (2016), case. In that case, Teva sought to make a generic version of Lamictal and Glaxo filed an infringement action. The parties settled without Glaxo making a cash payment to Teva. Instead, Glaxo agreed to allow Teva to sell generic chewable and tablet forms of Lamictal before patent expiration. Glaxo also agreed not to sell its own competing 'authorized generic' version of the drug. The Third Circuit Court of Appeals did not find this arrangement to be anticompetitive, and the Supreme Court declined to hear the appeal. As such, whether a pay-for-delay arrangement is anticompetitive is still open and must be adjudicated on the entirety of the situation and not merely because there was a reverse payment.

Most recently, Congress has sought to introduce legislation making pay-for-delay arrangements per se anticompetitive, but there has been no substantial progress on these proposals. The FTC has, further, sued Endo and a number of other generic companies alleging that various components of the settlement agreement between Endo and Impax in the Opana ER patent infringement action constituted impermissible pay-for-delay arrangements, which is currently pending. See *FTC v Endo*, 2016 US Dist LEXIS 145329 (ED Pa 2016).

Indemnification, disclaimers of liability, damages and limitation of damages

35 Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are commonly used and are enforceable in the United States. Insurance coverage is also available for the protection of a foreign licensor against invocation of an indemnification provision.

36 Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Parties can generally contractually agree to waive or limit certain types of damages, and disclaimers or limitations of liability are generally enforceable. Sales of goods under article 2 of the Uniform Commercial Code are subject to a non-infringement warranty, unless explicitly disclaimed by contract.

Termination

37 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

Generally speaking, US law does not impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship, or require the payment of an indemnity or other form of compensation upon termination or non-renewal.

Update and trends

Over the past year or two, the US courts have relaxed the requirements for awarding treble damages for patent infringement under 35 U.S.C. § 284 (*Halo Elecs, Inc v Pulse Elecs, Inc*, 136 S. Ct. 1923 (2016)) and attorneys' fees for an exceptional case under 35 U.S.C. § 285 (*Octane Fitness, LLC v ICON Health & Fitness, Inc*, 134 S. Ct. 1749 (2014)). In both cases, the Supreme Court rejected the 'mechanistic' tests for awarding such damages, informed the lower trial courts to award such damages based upon the totality of the circumstances and awarded the enhanced damages. In doing so, the Supreme Court reversed what many believed to be a trend disfavouring such damage awards.

In the Supreme Court decision of *Samsung Electronics Co, Ltd, et al v Apple Inc*, No. 15 777 (S. Ct. 6 December 2016), the Supreme Court reversed the Federal Circuit's and District Court's rulings which had based damages on the profits from the entire smartphone. The Supreme Court held that the damages for design patent infringement could be based on the value of the components that copied the

patented design and not necessarily the entire smartphone. The Supreme Court did not give the District Court any guidance as to whether or how to make such an apportionment.

As also discussed in response to question 17, the Defend Trade Secrets Act (DTSA) was signed into law on 11 May 2016. The DTSA creates a federal civil cause of action for trade secret Misappropriation. Additionally, sections of the DTSA are intended to provide procedural protections for 'whistleblowers' whose disclosure efforts may be otherwise impeded by an inability to provide authorities with confidential information.

Lastly, with the presidential election and incoming new presidential administration and congress, it is likely that there will be changes, at least, with respect to corporate taxation issues, but it is not possible to know, at this point, what the changes may look like and how they would affect intellectual property practice.

38 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

In the absence of a contractual provision addressing the termination or expiration of the sub-licence, the sub-licence will no longer be in force when the licence agreement expires or is terminated.

If a licence agreement for intellectual property is terminated or expires, the licensee's rights in the licensed property cease to exist. As a result, the licensee may no longer convey those rights in any sub-licence agreements that may have been previously granted. Thus, absent any provisions to the contrary, the licensee may be liable for breach of the sub-licence agreements.

Such provisions are enforceable, and many sub-licence agreements, for example, provide for termination of the sub-licence agreement in the event that the sub-licensor no longer owns the property that is the product of the sub-licence agreement. Further, an agreement can be drafted that allows the sub-licensee to 'step into the shoes' of the licensee in the event that the original agreement with the licensee terminates.

Bankruptcy

39 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

In the US, a bankrupt licensee may seek to assign the licence and the law does not require that the licensor consent (11 USC 365(a)), but it is typical that a licence either terminates automatically or is terminable if the licensee declares bankruptcy. Under this scenario, any sub-licences would be terminated to the extent that the licence to the licensee is terminated. On the other hand, a bankruptcy of licensors in patent licence agreements is governed by the Intellectual Property Bankruptcy Protection Act of 1988 (IPBPA), and 11 USC, sections 101(35A), 101(39) 365(n) and 1502. Under the statute, one of two things can happen if the licence is executory, that is, performance is still required under the agreement, upon the licensor declaring bankruptcy: the debtor can either assume or reject the licence. Nevertheless, if there is a 'foreign main bankruptcy proceeding' (ie, a foreign proceeding pending in the country where the debtor has the centre of its main interests where the initial proceeding is), the US courts may apply the foreign law in the US bankruptcy proceeding in accordance with the United States' commitment to international cooperation with foreign insolvency proceedings. 11 USC section 1502(i).

If the licence is assumed, the debtor and the licensee essentially have the same relationship they had before bankruptcy. If, however, the debtor rejects the licence, it is terminated, and the licensee may make a claim for money damage, or choose to retain its licence rights under the patent that existed on the date of bankruptcy filing.

Should the debtor reject the licence, section 365(n) protects licensees, and licensees may treat the contract as terminated and become an unsecured creditor for any monetary damages caused by the licence termination under sections 365(g) and 502(g) of the Bankruptcy Code.

In the alternative, section 365(n) also allows the licensee to retain its rights under the licence, such that the licence essentially continues as if never terminated. In that case, the licensee must continue performance, for example, making royalty payments. The licensor, however, is not obligated to continue performance.

Section 365(n) also provides the licensee with the additional right to enforce any exclusivity portion of the licence, such as, in the case of an exclusive licensee, preventing another party from infringing the licensed patent rights.

Despite the United States' commitment to international cooperation with foreign insolvency proceedings, the Fourth Circuit Court of Appeals has rejected application of foreign (German) law, where the foreign main bankruptcy proceeding was in Germany, when the foreign law conflicted with section 365(n), *Jaffe v Samsung Electronics Company Limited*, 797 F3d 14 (4th Cir 2013), cert denied, 135 S Ct 66 (2014). In that case, the Court rejected application of German law and applied US law to protect the rights of cross-licensees of a German debtor's American patents; the cross-licences are not enforceable under German law. The Court further noted, however, that the application of the US Bankruptcy Code, instead of foreign insolvency law, to protect a licensee in the Chapter 15 proceeding was within the sole discretion of the US Bankruptcy Court, such that this may not always be the result.

With respect to trademarks, the respective courts of appeal that have addressed the issue of whether the trademark licence could be rejected by the trustee in bankruptcy held, that a perpetual, royalty-free, exclusive trademark licence was not executory and, therefore, could not be rejected. See *In re Exide Tech*, 607 F3d 957 (3d Cir 2010). See also *Lewis Bros Bakeries Inc v Interstate Brands Corp*, 751 F3d 955 (8th Cir 2014). Both licences were entered into in connection with the sale of a business.

Similarly, the Seventh Circuit has held that a trademark licensee retained its rights to use a licensed trademark even after the bankruptcy trustee for the licensor rejected the licence agreement (*Sunbeam Products, Inc v Chicago American Manufacturing LLC*, 686 F3d 372 (7th Cir 2012)).

Governing law and dispute resolution

40 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

There are no prohibitions on US courts applying a foreign law specified as a choice of law per se. A US court, however, may choose not to apply a foreign law if it is against public policy or if there is no connection to the parties (see *Riley v Kingsley Underwriting Agencies Ltd*, 969 F2d 953 (10th Cir 1992)).

41 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another? Can the parties agree to preclude collective (or class action) arbitration? If so, list the conditions for a contractual waiver to be enforceable.

Parties may contractually agree to arbitration, as well as precluding collective (or class action) arbitration, instead of resorting to litigation in courts. Generally speaking, the US courts will not disturb the parties' agreement, and the arbitration may generally be held in any jurisdiction specified by the parties to the contract.

42 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

A US court will enforce a foreign court's judgment provided the court is located in a jurisdiction (state) that has adopted the Uniform Foreign-Money Judgments Recognition Act.

The US is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and foreign arbitration awards are enforceable in the United States.

43 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctions are available in the United States, but parties may contractually waive the right to seek an injunction. There are no specific conditions other than the agreement of the parties for a contractual waiver to be enforceable. The parties can also waive their entitlement to claim specific categories of damages in an arbitration clause. Similarly, the parties can agree that injunctive relief is to be granted under predefined circumstances, but US courts are not required to grant an automatic injunction provided for in a contract. It is always within the judge's discretion whether to grant an injunction.

In general, there are two types of injunctions available in the US; preliminary injunctions and permanent injunctions. A patent owner seeking to obtain a preliminary injunction to stop the sale of infringing devices early in litigation must demonstrate: (i) likelihood of success on the merits; (ii) irreparable harm; (iii) balance of the equities favour an injunction; and (iv) public interest favours an injunction. See, *Apple, Inc v Samsung Elecs Co, Ltd*, 678 F.3d 1314, 1323 (Fed Cir 2012). Typically, a patent owner will be required to post a bond to reimburse the alleged infringers costs or damages if the preliminary injunction is later found to have been improperly granted.

A permanent injunction can be requested after a finding that the patent is infringed and not invalid. In *eBay, Inc v MercExchange LLC*, 547 US 388 (2006), the Supreme Court made it more difficult for a patent owner to obtain injunctive relief. Before *eBay*, a prevailing patent owner was presumptively entitled to an injunction. However, post-*eBay*, for a prevailing patent owner to obtain an injunction, the prevailing patent owner must show that the patent holder has suffered irreparable harm, remedies available at law, including monetary damages, are inadequate to make the patent owner whole, the balance of hardships favour the patent owner and the public interest would not be harmed by issuing the injunction.

Also, in *Apple Inc v Motorola Inc*, 757 F.3d 1286 (Fed Cir 2014), the Court stated that there is no per se rule that injunctions are unavailable for SEPs.

In *Apple Inc v Samsung Elecs Co*, the Federal Circuit held that the district court abused its discretion when it did not enjoin Samsung's infringement, finding that the district court 'erred when it required Apple to prove that the infringing features were the exclusive or predominant reason why consumers bought Samsung's products to find irreparable harm' 801 F.3d 1352 (Fed. Cir. 2015); see also petition for *en banc* review granted and panel opinion to be modified and superseded on rehearing, 808 F.3d 517 (Fed. Cir. 2015), petition for rehearing *en banc* denied, 808 F.3d 518 (Fed. Cir. 2015). The superseding opinion on the permanent injunction is reported at 809 F.3d 633 (Fed. Cir. 2015).



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