IR GLOBAL

International IP Licensing

Creating effective contracts

Virtual Round Table Series

IP Working Group 2019

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Creating effective contracts

Humans have always been innovative, using ingenuity and acquired knowledge to improve their own lives.

Huge leaps forward have been made in the last 100 years as inventions ranging from antibiotics to airplanes have revolutionised our existence. As our technological achievements become ever more complex, so the scope for further invention grows.

Our global, industrialised economy gives tremendous potential for a rapidly increasing number of valuable brands, inventions and other intellectual property. It also increased the need to protect those valuable assets for the benefit of their owners.

According to the World Intellectual Property Organisation (WIPO), there were almost 14 million patents in force worldwide in 2017 and more than 43 million active trademark registrations. Innovators around the world filed more than 3 million patent applications in 2017 alone, representing an eighth year of consecutive growth.

Asia has overtaken the US as the region where IP offices received the highest number of applications for patents, utility models, trademarks and industrial designs. Asia received 65 per cent of all patent applications made worldwide in 2017, while China alone holds 15 million active trademark registrations.

Protecting all these ideas, inventions and brands is big business for IP lawyers, but can be exceptionally complex, especially where multiple jurisdictions are involved. Licensing is a common method of exporting IP into new markets, but there are many hurdles that must be identified and overcome in order to ensure an international licensing agreement is suitable for both licensors and licensees.

An effective licensing agreement will initially consider what type of IP is being licensed and adapt accordingly. Trade secrets, patents, copyrights and trademarks all have different requirements and should be treated differently. As an example, some countries do not have fully developed laws covering the protection of trade secrets and therefore contracts agreed in those jurisdictions are likely to be vulnerable in case of a dispute.

The choice of jurisdiction and applicable law is crucial and should satisfy both parties. Many licensees will prefer a neutral jurisdiction with a good track record of expertise and impartiality when resolving IP disputes; such as Switzerland, the UK or Singapore.

Issuing multiple IP licenses can increase the complexity of the process and require a significant amount of due diligence, to ensure that territorial rights are correctly apportioned and subsequently respected. Specific grant clauses must be included within contracts to ensure that licensees understand the limitations of their ownership. These clauses will explicitly state the extent to which IP can be utilised.

Naturally, with multiple licenses in place over time, improvements will be made to the IP. Ownership may become confused between the licensor of the original IP and the licensees who wish to carve out their own IP rights. This must be handled sensitively by the IP lawyers involved, opening channels of communication and developing a new IP agreement to accommodate these developments.

Another challenge in the use of multiple licensing, is active and passive sales and the use of online sales to circumvent territorial rights. Although this cannot always be controlled, the IP lawyer must try to balance the needs of both the licensor and licensee when resolving any contractual disputes along these lines.

In the following pages, we bring readers the expertise and insight of six experienced IP lawyers from a range of jurisdictions around the world. They give their views on the process of licensing IP to international parties and share their experiences of doing this. They analyse the complexities of multiple licensing arrangements and consider the types of clauses they would expect to see in effective licensing agreements.

The View from IR

Thomas Wheeler

Founder

Our Virtual Series publications bring together a number of the network's members to discuss a different practice area-related topic. The participants share their expertise and offer a unique perspective from the jurisdiction they operate in.

This initiative highlights the emphasis we place on collaboration within the IR Global community and the need for effective knowledge sharing.

Each discussion features just one representative per jurisdiction, with the subject matter chosen by the steering committee of the relevant working group. The goal is to provide insight into challenges and opportunities identified by specialist practitioners.

We firmly believe the power of a global network comes from sharing ideas and expertise, enabling our members to better serve their clients' international needs.

FRANCE

François Illouz

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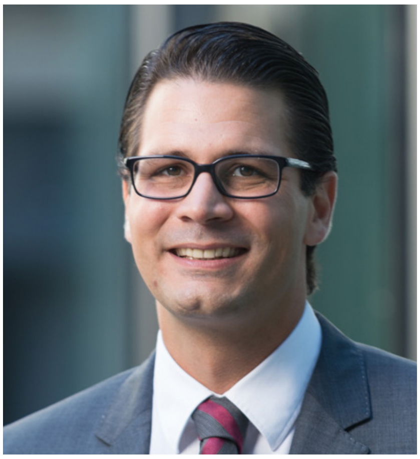
François Illouz has wide-ranging experience in the protection of intellectual creations, communications and business.

He acts mostly for institutional clients in audio visual, telecommunications, publishing, production, industry and real estate on intellectual property, commercial law and litigation.

François previously founded the firm of Illouz-Simonet-Jaudel and has published a book on co-ownership. He holds a youth and sports gold medal and is a member of the French Golf team. He is also a member of Morfontaine golf club, the Royal Liverpool Golf Club and the Automobile Club de France.

ISGE & Associés assists its clients, for advisory matters, litigation, arbitration in various areas of law such as business and contract law, commercial law, anti-trust law, real property law, corporate law, labour law, IP & IT law and sports law.



SWITZERLAND

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Sergio Leemann was admitted to the Bar in 2009. He is an expert in international and national contract law, IT law, data protection law, advertising and competition law, distribution law, corporate and civil law and has working experience in an international environment.

Before joining Wicki Partners, Sergio was working as a Legal Counsel for an international industrial and retail company in the consumer goods market where he focused on data protection law, IT law, digital transformation, advertising and distribution law, competition law as well as international and national contract law.

Prior to his job as legal counsel, Sergio worked for a law firm in Zurich and Bern as well as a financial institution.

Sergio writes and negotiates in German and English, and understands and speaks French. He is a member of the Swiss and Zurich Bar Association.

U.S - CONNECTICUT

Walter B. Welsh

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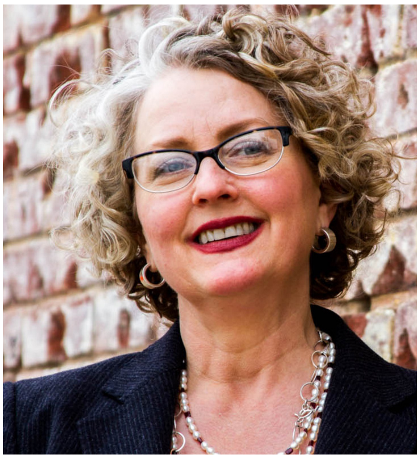
Walter is an IP attorney and engineer that counsels clients on implementing profitable IP protection strategies. He is consistently successful at the USPTO and has a reputation for aggressively enforcing his clients' rights. He strives to increase the value of his client's business and reduce their costs.

Walter regularly travels throughout the US and internationally to meet with clients and colleagues. He lives in Darien, Connecticut with his wife and children and enjoys cycling.

His firm, the Whitmyer IP Group (WHIPgroup), is a full-service, global IP law firm. WHIPgroup is counsel to some of the most well-known IP owners in the world. Every IP specialty is well represented at the firm with physicists, mechanical, civil, electrical, biomedical and chemical engineers, computer scientists, brand managers, and trademark attorneys. From high-stakes patent litigation to global brand management, WHIPgroup has a track record of providing exceptional representation for sophisticated clients.



U.S - OKLAHOMA

Peggy Millikin

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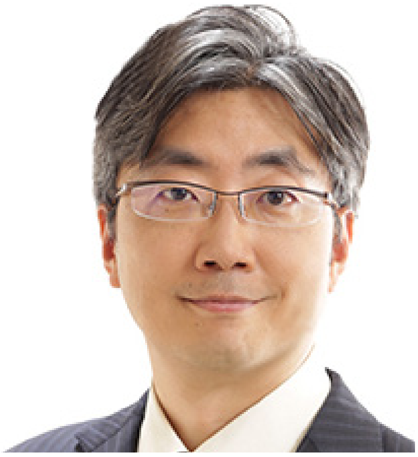
Peggy is a registered patent attorney and has been practicing law for 28 years.

She has managed the global intellectual property ("IP") portfolios for a number of international businesses, counselling clients on aspects of portfolio creation and management and also protection and enforcement. She understands that clients are seeking value-driven results and look to optimise their IP spend while making IP assets an integral part of the business or organisational strategy.

Peggy also has lead the IP function on a number of international transactions, where the IP assets at issue were valued at several hundred million dollars, and helps clients enforce IP rights in a competitive market. She has also represented clients in high-stakes litigation and employs creative problem-solving skills to encourage resolution of disputes.

Peggy's technological background spans a range of technical disciplines, from fibre forming, to polymer and glass chemistries, industrial equipment and processes, business methods and software.



JAPAN

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Kazuto Yamamoto is the partner in charge of the Cross-Border Transaction and International Dispute Resolution practice groups at Daiichi LPC.

He has broad experience of both inbound and outbound investments, with an emphasis on M&A, particularly those involving markets in the United States, China, Southeast Asian Countries and the EU. Kazuto has a wealth of experience representing a wide variety of foreign and Japanese companies, ranging from start-ups and SMEs to major listed corporations. In addition to drafting commercial agreements in English, Kazuto is also a skilled bilingual negotiator.

Kazuto is also extremely well-versed in intellectual property licensing and intellectual property disputes. His representation includes licensing and drafting other IP agreements for clients in the manufacturing, life sciences, and entertainment sectors in both English and Japanese.

Kazuto played an instrumental role in the creation of the Japan International Mediation Center that opened in Kyoto in November 2018. He was admitted to the New York Bar in 2009 and has worked at two major international law firms in Chicago and Shanghai.

ROMANIA

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Madalina founded the Hristescu & Partners Law firm in 2010 in Bucharest, Romania. Later on, she developed a branch of the firm in Rome.

As Founder and Managing Partner, she is involved daily in administration, talent acquisition and business development.

As a lawyer, she counsels clients on banking, non-banking and financial services, corporate governance, employment & HR, real estate sectors and coordinates mergers & acquisition transactions.

As an entrepreneur, she understands and supports the daring challenge of the status quo, by investing resources in start-ups that may shape our future.

Madalina is a graduate of the Bucharest Faculty of Law and her professional training includes the London School of Business and Finance LSBF, Boston University School of Law - Contracts & International Business Transactions, Churchill College, Cambridge - Leasing School Program.

Previously, Madalina has led the Legal Department of an international corporation and she currently acts as a Council Member of the European Regional Forum- International Bar Association (IBA) and an Official Partner of the Financial Institutions' Association in Romania (ALB).

SESSION ONE – APPLICABLE LAW

What are the best practices you implement around choosing the applicable law for international licensing agreements? How does this apply to licensing disputes?

France - François Illouz (FI) The applicable law issue is important, because if there is litigation or a problem with the contract, it will be influenced by the applicable law, the applicable jurisdiction and also the cost.

When we have an intellectual property license in a contract, we usually refer to the recommendation of the Roma 1 regulations. This doesn't always help though, because it says that the contract has to be ruled by the law chosen by the parties.

With regard to the law chosen by the parties; most of the time it has to be linked with the contract, along such lines as the registration of the brand or the country where the license is granted. The problem is that everybody wants the law or the jurisdiction to be theirs.

We always recommend that the applicable law is the same as the jurisdiction, because, otherwise, you have to ask for legal opinion and rely on the judges to apply the law correctly.

I like to make the applicable jurisdiction that of the defendant in any dispute. This means that if the claimant wants to make a claim, or go to trial, they have to make the effort to do so under the law of the defendant. This often helps to drive an amicable settlement. I stress the points that in France we have specialised courts for IP matters, and they are only eight in France and one in the French Antilles. So it is important to be sure that the right court will be chosen.

We do sometimes stipulate international litigation in licensing agreements, when a dispute is between parties in different countries. That would be good for Sergio, because, in France, we usually use Swiss law as a neutral ground.

We will also consider arbitration, which is faster, but sometimes more expensive.

Switzerland - Sergio Leeman, (SL) We do help a lot of countries and a lot of international contracts with our law. We're open to that, but our judges will not always accept the venue of a licensing agreement dispute to be Switzerland. Sometimes there has to be a link to Switzerland to qualify it as the place of jurisdiction.

If it's a European country, then, of course, we would be more likely to accept it. If it an agreement involving China or an African country, our judges may refuse to have the lawsuit in Switzerland. Arbitration proceedings, on the other hand, will be held in Switzerland, if the parties choose to have them here.

I can agree with François though with regard to international jurisdiction on Swiss agreements. If we have an agreement between an American company and a Swiss party,

we often choose England as a jurisdiction, because they're very open to foreign lawsuits and are used to handling them. London courts deal with them in a fast and effective manner.

If an international jurisdiction is not required, we always try to have it back in Switzerland, where we know the law. Swiss courts are very safe, very predictable and very fast. A licensing lawsuit shouldn't take more than six months to complete, which is pretty fast in international comparison. That's one of our biggest advantages.

Romania - Madalina Hristescu (MH) Applicable international private law provisions send to the law of origin, that will apply in any related litigation.

In addition, we recommend that the contractual parties take into account the fact that in most cases, the material law applicable to the place of performance of the contract may be an important factor in choosing the jurisdiction also from the place of performance of the contract. In this way, the courts and authorities called upon to resolve any possible dispute in connection with a license agreement are also familiar with material rights in relation to any of the intellectual property rights invoked.

For example, for most intellectual property rights that benefit from registration protection, the special Romanian legislation provides for the license to be published in the Official Gazette of the State Office for Inventions and Trademarks in order to make it opposable to any third party. Any litigation in connection with the contract will raise discussions both in terms of material law and any procedural exceptions deriving from the particular circumstances mentioned.

Courts in Romania benefit from specialized court cases with intellectual property rights, having extensive experience in interpreting and executing licensing contracts for such rights.

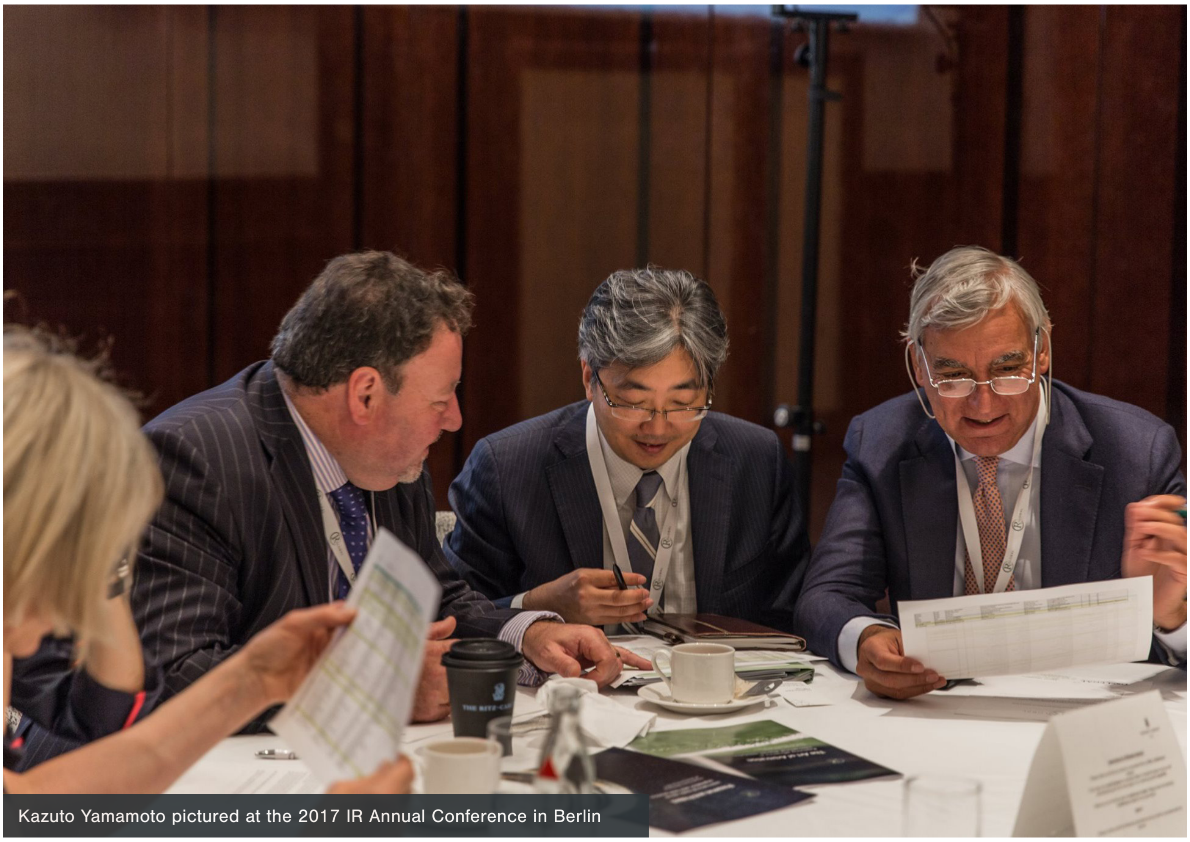
Regarding the administrative procedures deriving from the registration of the license agreements, the Bucharest Court of First Instance is the court competent to settle in the first instance any litigation of this nature. In the licensing contracts, we also recommend arbitration seated in Romania.

U.S - Oklahoma - Peggy Millikin (PM) If the agreement is between two US entities, then we will, of course, select US law. We have a federal and a state regime of governing law, so we would look at the particular state, along with the federal regulatory scheme that governs that particular IP.

We tend to go to either Delaware or New York, unless we have more local parties and they are comfortable with Oklahoma law.

In terms of international licensing agreements, some licensees are comfortable with US law, but we often go to the law of England and Wales, or Singapore if we're dealing with somebody in the Asian Pacific Rim.

I would like to emphasise, that the choice of law is also dependent upon the particular IP assets that are subject to the licensing agreement. In this respect, the choice of law may change, whether we're licensing in or out trade secrets or trademarks or patents or copyrights.


Kazuto Yamamoto pictured at the 2017 IR Annual Conference in Berlin

Taking trade secrets for example, not all countries of the world have an established developed body of statutory law or case law governing trade secrets. If I have a client who is setting up an R&D centre in some country of the world, we have to consider trade secret laws. It is important that the jurisdiction has developed strong laws to protect and enforce trade secrets.

The United Kingdom and the United States have common law trademarks. This means you don't have to actually register the trademark, in order to develop common law rights in it.

So, these are the kinds of factors relating to the substance of law of the country and the particular IP assets that are being licensed, that help us decide what law we're going to choose to govern the contract.

U.S - Connecticut - Walter Welsh (WW) Choice of law and venue provisions significantly impact the rights of the client and the cost and complexity of resolving disputes arising under an IP license.

I'll touch a bit on the venue side. We always want a venue that has experience handling IP disputes and does so efficiently. That's really important, because it helps avoid disputes if the parties can predict how a court is going to work. It's a lot easier to advise the client if this is the case, so we're looking for an efficient process, an accessible location and experience applying the selected law.

Ideally, we would like the Southern District of New York because the court is sophisticated, has a well-developed body of law, and routinely applies outside law. In my experience, however, it can be a deal breaker to push for a home venue in an IP negotiation. We understand this and routinely look at different courts. The UK is possible sometimes, while we often work with German courts, particularly with patent matters.

We will also consider arbitration. In trademark licensing cases, we might use the WIPO arbitration forum. There are many different alternative dispute mechanisms in different US states that will hear disputes as well. These are particularly efficient where there are multiple licensees in a single territory.

Another important aspect is to include provisions under which both parties submit to the jurisdiction of the selected venue. They must also agree that judgments from that venue will be enforceable upon them in their home jurisdictions. Finally, we look to include provisions in which both parties agree to waive service requirements under the Hague Convention, to the extent possible, to prevent a party from avoiding a dispute based on procedural grounds

Japan - Kazuto Yamamoto (KY) Japanese laws and legal systems are quite stable, reliable and clean, so we usually recommend our clients to select Japanese laws as applicable laws. We would also recommend Japan as the exclusive jurisdiction for arbitration.

Legal fees in Japan, without any discovery procedure, are significantly lower than those in the US, which is unfortunate for us as Japanese lawyers, but good for clients. If we need to choose neutral ground, then we will usually choose Singapore law, because Singapore is the best venue in Asia.

Hong Kong is also very renowned and reliable for arbitration, but since Hong Kong is closely linked with China, we usually prefer Singapore arbitration. Sometimes we choose the jurisdiction where enforcement will occur, but that depends on the legal system, which can be unpredictable.

SESSION TWO - GRANTING MULTIPLE LICENSES

How do you ensure that rights to IP can be granted effectively in multiple territories? What problems have you encountered with this? Any examples.

France - FI We can put in place guarantee clauses that protect the licensor, but that's surely not enough.

What we want to have is a guarantee that the licensee holds the rights, but also a guarantee that the licensee will be fully responsible for the rights granted. If there is a problem, or a claim, then someone has to be fully responsible for that.

We suggest that the licensor attaches the IP rights that have been granted and also the certificate of registration, if it is a trademark.

This can become messy, if, during the course of the contract, the licensee wants to add territory where sometimes the licensor has no protection at all. The licensor then needs to protect that territory. If they have already registered it more than five years ago and it hasn't been exploited, then the licensor may have lost the ability to licence it again.

It is also possible that a previous registration might be fraudulent. This would prevent the real owner of the licensing rights from registering a territory, until it had been resolved.

All of these things must be mentioned in the contract, which is the responsibility of the licensor. Clauses containing guarantees and declaration have to be very precisely stipulated in the contract, in case of multiple jurisdiction.

Switzerland - SL One of the key things is to make sure that the licensor actually holds the rights, but sometimes you can't do that before you actually try to register them. As Peggy mentioned before, some IP rights are not registered at all, so that's something we sometimes have big issues with in international contracts.

I currently have a case with a Swiss franchise company that is going out to Thailand. Their trademark is already registered and they are well known with plenty of restaurants in Switzerland and all over Europe. It's a big issue to have the restaurant name in Thailand now, which needs to be protected.

I agree with Francois that you have to make the contract as detailed as you can and some schedules and annexes are perfect for that. Although it's a whole lot of work and they can change rapidly.

Romania - MH Applicable international private law provisions send to the law of origin, that will apply in any related litigation.

In addition, we recommend that the contractual parties take into account the fact that in most cases, the material law applicable to the place of performance of the contract may be an important factor in choosing the jurisdiction also from the place of performance of the contract. In this way, the courts and authorities called upon to resolve any possible dispute in connection with a license agreement are also familiar with material rights in relation to any of the intellectual property rights invoked.

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U.S – Oklahoma PM Patent law in the US is the exclusive jurisdiction of the federal court. There is a dual trademark system where trademarks can be federal, while each state can also grant their own state trademark, but we typically deal with federal trademarks.

There are a lot of subscription services out there for conducting due diligence and confirming what a licensor is offering. As a result, we do due diligence just as if we were in a transaction of some kind.

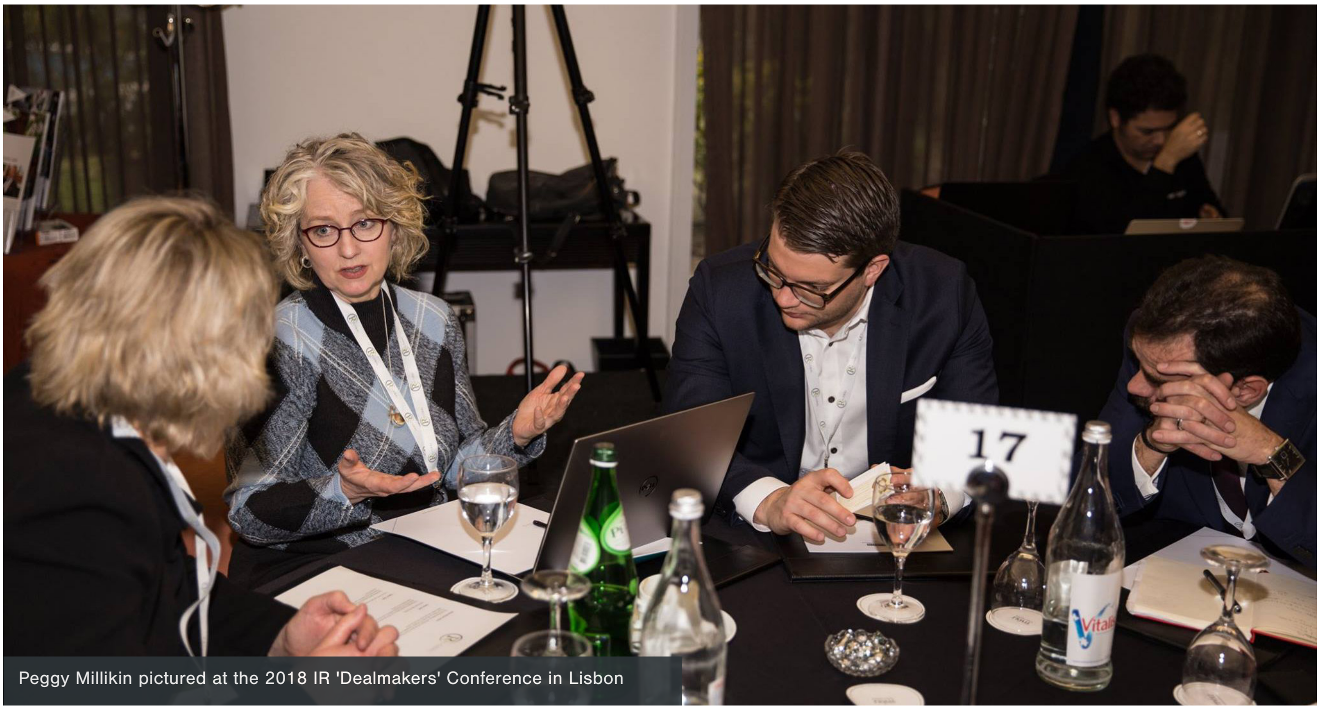
We did this recently in fact with another IR Global member, where we were researching the global IP portfolio of an entity. A client was considering licensing it and expanding their business line by bolting on this other company, initially through a license agreement with an option to purchase at some later date.

We conducted the due diligence as if it were an M&A transaction, and discovered some assets the licensor didn't realise they had, because their IP wasn't centralised. This shows you can gather information and present it to the other side, then let them sort out some of the knots that appear from the searches you've conducted.

Another issue that comes up for us, occurs in a joint venture, where licensing arrangements are entered into between two or more parties within a joint venture. The parties are contributing resources, capital and technology to the joint venture operation, and have to decide whether they are going to assign the technology in the IP to the joint venture.

If a joint venturer wishes to retain ownership of contributed technology, we may recommend licensing to the joint venture in the US because the joint venture will typically exploit the technology that's been contributed to it. It may also develop new technology based upon the IP that is contributed to the joint venture.

In such instances, the issue arises around who owns the IP that's created by the joint venture entity. It also arises in agreements between two independent parties that are creating the joint venture, around who is going to own the improvement.


Peggy Millikin pictured at the 2018 IR 'Dealmakers' Conference in Lisbon

If you're a licensee, you might want to own all the improvements to the technology, however, that can create a situation where, if the licensee creates new improvements, the licensee may not be able to patent them. The licensor might have a blocking patent, or any licensee improvement might not be new or novel enough over the licensed IP.

We can usually get around that in the US by showing some common ownership between the prior art and the new technology patent that's being applied for. For this reason, in the US it is advantageous to have one entity, whether the joint venture or a joint venture party, own the contributed IP and the improvements to it.

Another issue that comes up deals with anti-competition laws. Sometimes, the licensor likes to own the improvements to the technology to maintain its edge in the technology space. In the US, this typically this is ok, but in some other countries, licensee improvements to technology cannot be assigned to the licensor without potentially violating anti-competition laws.

In such countries, if a joint venture entity who has licensed in technology from one of the joint venture partners subsequently creates an improvement to the licensed technology, the joint venture entity would have to own the improvement but could provide rights to the licensor. If it didn't, the licensing joint venturer could lose total control over its domain of technology because they're not allowed to maintain ownership of any of the improvements created by the joint venture.

U.S – Connecticut - WW I agree with everything that's been said and that the licensor has a strong interest in owning all improvements.

But sometimes I represent the licensee, meaning their requirements need to be met as well. I had one case where a client was buying industrial machines from a client that had them heavily patented. My client in the US was doing a lot of independent work with these machines to develop their own products and wanted to ensure it maintained ownership of its new IP.

That was a difficult negotiation, because the machine owners wanted to own all new IP developed on their machine regardless of their contribution. Ultimately we were able to agree upon a limited grant back clause in the license, so that licensor would have a limited right to use my client's inventions. Under the limitation, they couldn't go out and sub-license the new IP to other customers, and were only allowed to use new IP based on the underlying licensed IP.

It's important to consider these provisions when you represent the licensee, because they're trying to carve out their own IP field and you need to be forward thinking about that to ensure the space is there.

Another thing we are always cognizant of with these license agreements, particularly in multiple territories, is including some mechanism in the agreement that ensures that the licensee and its employees will take all steps necessary to comply with the regulation requirements for patents and trademarks.

In the US, for example, there are a lot of requirements for the inventors to sign documents and execute assignments. This might continue for up to 10 years or more after the license or transfer is effective. We can spend a lot of time chasing down people so they can fulfil their obligations. We can reduce this effort by including specific provisions that explicitly require the prompt compliance of the licensee and its employees.

A second part is that, after the license is executed, there is some type of periodic communication between the parties under the IP agreement. Most agreements include a notice provision with specific contacts, however, these change as the company moves locations or is acquired. By maintaining routine communication, the parties can quickly address a problem that arises under the license.

Japan - KY We have seen cases where we can register a trademark in some jurisdictions, but cannot register the same trademark in other jurisdictions. In this event we need to make it clear which are the jurisdictions with and without legislation. We then need to evaluate how likely it is that licensees will successfully obtain registration in the near future.

If licenses have yet to be registered, we should evaluate how risky it is to use the same logo in each jurisdiction without a license. Obviously we need an indemnification clause in case of infringement by using the licensing agreement.

SESSION THREE - DEMARCATION OF RIGHTS

How can a licensor ensure that territorial rights are respected where multiple licensees exist? What clauses best achieve this in your jurisdiction?

France - FI In our jurisdiction, this is quite problematic because there are no borders inside the European market.

It's a little bit tricky, because you've got a lot of licenses granted for territories inside the European market. We had one example recently, where the right to exploit IP rights of a famous brand in the Benelux market were sold in the in the Benelux market and in Poland to two different licensees, with another licensee in Poland. A minimum guarantee was put in place by the licensor to match the royalties for the two territories with each licensee.

The licensee in Benelux had a client in Poland who was a wholesaler. The Polish licensee was upset because his territory was under attack from a different licensee. That is difficult to avoid, so there must be a distinction between active and passive sales.

Active sales can be dealt with, because the agreement can have a stipulation to say licensees have to respect territorial rights. However, with passive sales, it's easy for a licensee to make a phone call to a customer in another territory and say ‘I'm not going to market the products in your territory, but please make a request to me by email and ask me the price and I will sell to you.’

There needs to be a good faith clause put into the contract, which stipulates that every licensee has to act in good faith to protect the territory of each licensee within Europe.

This can also have an impact on the minimum guarantee. For example, if the licensor finds out that a licensee is selling outside of their territory, they should notify the licensee network and ask the sales to stop. If this doesn't happen, then the licensor may increase the minimum guarantee of that licensee, because they are working in another market.

With regard to online sales. It's forbidden within Europe to prevent a licensee or distributor from selling online. This was decided by the Court of Appeal in Paris and the European Court of Justice in 2010.

As a result, there needs to be clauses inserted into licensing agreements, specific to online sales. They may include, for example, wording to prevent to the purchase of Google Ad Words that could aid the sale outside of the correct territory. They might also prevent the use of the brand as a domain name, which would otherwise make it easier to sell outside of the territory.

Switzerland - SL It’s exactly the same in Switzerland because we have bilateral contracts with the EU that are bound by the same laws.

This is more a relationship management thing, than a legal thing, because you cannot forbid passive sales in Switzerland or the European community.

When the Euro recently fell in value against the Swiss Franc, all the products in the EU were way cheaper than before. This increased the volume of passive sales. We can use GEO logging, which is an easy thing to implement, but really it’s ineffective in stopping passive sales.

I used to work for a multinational company and we tried to forbid it, but it was legally impossible. We had to do it through relationship management, but it was impossible to actually enforce.

I totally agree with Francois, because we're kind of in the same situation here. It's hard to protect anything unless you can actually prove that it was an active sale. This is pretty much impossible, because none of those parties will ever admit they took advantage.

It also depends on the distribution system you have. If there is selective distribution within the EU and Switzerland, you have to allow your licensees to sell across all borders within such selective distribution system.

Although you may say that German licensees can only sell in Germany, you can't forbid them from selling to any other company in the same system, within the EU and EEA including Switzerland.

Romania - MH Although the licensed rights are ought to be well defined in terms of content, guarantees, geography, very strong demarcation of territory and restrictions on exports in certain conditions could be seen as anti-competitive within the European market and, implicitly, in Romania.

Territorial restraints may contain restrictions of the active sales and give the possibility of an effective follow-up. However, the entitlement and ability in following the existence of passive sales are forbidden under the European law, as mentioned by François and Sergio. This is however a restriction very likely to be found in licensing agreements.

In cases where the content of the intellectual property right or by will of licensor and licensee, a very strict national or regional character is assigned to the licensed product, there is to be made a thorough analysis on a case-by-case basis, to determine the content and implications of the restriction.

There was for instance the well-known ruling of the European Court of Justice in the Premier League case, that disqualifies the restriction imposed to licensees on certain EEA territories from selling decoder cards accessible the from anywhere in the EEA, considering such a restriction on sales as a restriction by object pursuant to Article 101 TFEU.

Another hypothesis that raises anti-trust issues in relation to the demarcation of territories would be trademark licenses when the licensor and licensee are competitors in the relevant market. Demarcation of access and empowered staff in relation to the licensed product are contractual measures to be considered in order for any exchange or share of information not bring along any competitive infringements.

An interesting thought on the content of active sales would be related to the exhaustion principle, preventing control on products incorporating copyrights after their first sale. Recent jurisprudence of the ECJ established that exhaustion principle in terms of copyright applies not only to physical products, as it was previously considered, but also to digital software.

U.S – Oklahoma - PM I tend to rely heavily on definitions and the grant clauses, for delineating the rights around what is allowed.

A well drafted license agreement should specifically identify any of the registered IP, pending or unregistered IP, non-published IP, or trade secrets. You can get into difficulties with this, because some clients don't really know what their trade secrets are and have to expend time and trouble to figure that out.

It's particularly important to include this in a patent license, because even if there are only one or two patents being licensed, and the patents are later challenged and found invalid, the licensee has to continue paying royalties because trade secrets are part of the license agreement and form part of the justification for the royalty base.

It's very important to have these definitions and specifically identify the licensed IP. It's also important to use these definitions in the grant clause, because the grant clause pulls those definitions into it and creates a tight, succinct grant clause that clearly identifies the granted rights.

Whether it's a patent, trademark, copyright or trade secret; there are different types of rights that are attendant to the different types of IP assets being licensed.

You have to specify that the products, services or the processes that are being authorised can only be exploited for defined purposes, products or uses. For trademarks, specify that the trademark can only be exploited in connection with defined products or services. Also, include the geographic territory or the industry and whether the license is exclusive or non-exclusive.

Copyright license grant clauses can be very complicated, because copyrights are broken into so many individual rights and include not only rights to copy, but to make derivative works or distribute or to publicly display or perform.

It's really important to draft the grant clause to the particular IP assets, and then have definitions that specifically define all these features of the grant clause.

U.S – Connecticut - WW Another important protection mechanism is to make sure the client registers trademarks, particularly in the US.

In the US, there is something called the Lever Rule which is a statute protecting unauthorised importation of goods with registered trademarks. It allows a client to register a trademark with the US Customs and Border Patrol. They will then block unauthorised import of products that bear the trademark and that are materially different from the authorised product. That could be a difference either in ingredients or labelling.

In a recent example, a third party was attempting to import Red Bull soft drinks into the US and it was blocked under this rule as an unauthorised import, because it didn't have the correct nutritional information as required by the FDA in the United States.

This is not an ultimate bar to importation, because the importer can get around the Rule by stating in writing on the product that the product is not authorised for sale in the United States, but generally it provides a layer of protection, particularly in the area of consumer products.

We also like to include a contract provision that requires the different licensees in different territories to use unique identifiers on their packaging. This allows our clients to go out into the marketplace, do an audit, and distinguish where the different goods and services are coming from, thereby ensuring compliance with the territorial restrictions in the license.

Again, we have found that it very important to have an open line of communication with the licensee and be able to coordinate the issues within their marketplace. We can then adjust the license accordingly, so that we don't end up with a situation where the licensee is looking to dump products into a different jurisdiction.

We work with our clients to set up a plan for policing license agreements, and we focus on educating the business people and sales people to be able to spot unauthorised goods. We then create a process for them to report this to the management.

Another thing that's been quite useful, particularly with products that have a high brand affinity, is the provision of a forum for the public to report unauthorised goods. A notable and well reported example of this is CrossFit. They have an IP theft form on their website that allows customers to report unauthorised goods.

France - FI A question for our American colleagues. Is it possible to grant a license in some states and not the whole of the USA? Can a licensee obtain the right to market products in selected states?

U.S – Oklahoma PM You would do that by defining the territory in the grant clause, where that particular licensee can exercise the license rights – in just a particular state or particular region of the United States.

France - FI How do you protect against them selling outside the territory?

U.S – Oklahoma PM It's prohibited by the definition of the geography. We'll define the territory and if it's exclusive, then it's limited to a particular state or a particular territory and they have no right to sell outside that territory. The licensor then obligates and promises not to allow any other licensee to sell in that territory. It's a mutual exclusivity agreement that's limited to a particular state or a particular territory.

The licensee would then find out if somebody was selling products into their territory and would bring that to the attention of the licensor. They would then be obliged to carry forth the enforcement mechanism.

Japan - KY in Japan the border is quite clear, so we don't have the issue of restrictions regarding passive sales like EU countries.

With regard to online sales, we just use the combination of limiting the shipping address to the territory in question, while limiting the use of credit cards issued outside the territory in question. This seems to work well to protect the demarcation of licensing rights.

In Japan, we also have customs enforcement at the border with regard to trademarks. This doesn't happen for patents, but is effective in stopping trademark infringement.

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