WHITE PAPER

Hands Across the Water – the Special Relationship in IP Licensing

First presented at AIPLA Spring Meeting San Diego on 17 May 2017

Introduction

It is no surprise that intellectual property rights ("**IPR**") holders often wish to monetise their rights by means of some form of licensing arrangement.

In a patent context, licensing the right to work a particular invention can allow a patentee to concentrate on innovation or marketing of a select range of products, whilst ensuring that they are compensated for others making wider use of their inventions.

Licences can be multinational in scope – perhaps, for example, a US patent owner wishes to concentrate on his home market, whilst allowing others to market a product in other territories. This could be achieved by granting one entity or group of companies a global licence (having effect in any region where the patent owner has national rights), or alternatively by the licensor granting distinct single territory licences to several different licensees.

There are a number of reasons why a licensor might prefer the former: (1) There are likely to be inefficiencies in multiple licensees marketing the same licensed products and duplicating development work.

Therefore in the case of multiple distinct licences a structure must be implemented to allow development results to be shared directly between licensees or via the licensor; (2) There may be regulatory obligations on the parties which could require the sharing of information related to safety and regulatory matters; (3) If manufacturing of a product by more than one licensee is intended sharing of manufacturing process data may be required to ensure compliance with regulatory obligations and consistency of product; (4) The licensor may be happy to allow licensees to obtain control of (and incur the cost of) the prosecution, maintenance and enforcement of intellectual property rights. However, in order to avoid inconsistent approaches to prosecution in different territories, strategies may need to be coordinated; (5) It will likely be more efficient to negotiate one global licence than individual licences with multiple different entities. Further, the burden of collecting royalties and ensuring fulfilment of other obligations under the agreement is also likely to be reduced.

Various strategic and practical issues have to be considered before any licence (global or otherwise) is instigated. One issue, sometimes irrelevant but potentially hugely significant, is the potential for the licence to trigger the interest of competition authorities. For example, US licences may be subject to the US antitrust regime and cross border licences can bring into play distinct (and different) regimes. A savvy licensor therefore will ensure that licence provisions which would be safe in his home territory remain so once a licence touches different jurisdictions.

Global licences which contain within them European IPRs are common, and therefore there exists the possibility of triggering EU competition concerns. In this article therefore, we focus on the application of competition law in the EU (and some of the policy reasons behind the regulations). In particular we consider the current legal status and policy considerations of "no-challenge" and "terminate on challenge" clauses in licences in Europe. We also briefly look at other considerations relevant to "transatlantic" licences as well as the possible implications of the UK's recent decision to leave the EU.

EU Competition Law and IPRs

The right of an IPR holder to obtain protection from others using those rights encourages and rewards innovation and invention. For example, in a patent context, inventors are incentivised to create new products in new markets and the development of substitute products within existing markets is encouraged. IP licensing can further spread innovation into new markets or new territories. Competition law clearly does not have as its object the stifling of innovation, but in preserving effective competition (e.g. by reducing barriers to trade and promoting efficient dissemination of goods and services) the IPR regime and competition regime certainly interact. The latter public law regime provides a system of control on anti-competitive conduct not prevented by the regulation offered by IP legislation, which governs private property rights.

In Europe at least, competition law has been held to apply to a wide range of licensing arrangements, including joint ventures, assignments and cross licences arising out of settlements, among others. The Court of Justice of the European Union ("**CJEU**") has held that IP licensing arrangements are not automatically anti-competitive, but if they result in commercial practices which have as their object or effect the prevention, restriction or distortion of competition in the European market these arrangements can be subject to sanctions. Ultimately, IPR holders exploiting their rights need to contend with at least the possibility of being subject to restrictions imposed by competition law.

The basic principles of European competition law can be found in the Treaty on the Functioning of the European Union ("**TFEU**"). Of particular importance are Article 101 which prohibits agreements which could prevent, restrict or distort competition within the EU and Article 102, which is aimed at preventing undertakings who hold a dominant position in a market from abusing that position. Article 101 is accordingly most relevant to patent licences and is the focus of this paper, although Article 101 and Article 102 can apply contemporaneously (albeit on their own terms).

Applicability of EU Competition Law to Transatlantic Licences

Article 101 TFEU reads as follows:

> *"1. The following shall be prohibited as incompatible with the internal market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade between Member States and which have as their object or effect the prevention, restriction or distortion of competition within the internal market, and in particular those which:*
> *a) directly or indirectly fix purchase or selling prices or any other trading conditions;*
> *b) limit or control production, markets, technical development, or investment;*
> *c) share markets or sources of supply;*
> *d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;*
> e) *make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.*
> *2. Any agreements or decisions prohibited pursuant to this Article shall be automatically void.*
> *3. The provisions of paragraph 1 may, however, be declared inapplicable in the case of:*
> - *any agreement or category of agreements between undertakings,*
> - *any decision or category of decisions by associations of undertakings,*
> - *any concerted practice or category of concerted practices,*
>
> *which contributes to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefit, and which does not:*
> *a) impose on the undertakings concerned restrictions which are not indispensable to the attainment of these objectives;*
> *b) afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products in question."*

In considering whether an agreement will trigger Article 101, there must therefore be potential for an effect (the degree of "effect" which is required is discussed further below) on trade between Member State[1]. The requirement for the effect to be cross-border distinguishes EU competition law from national competition law.

The CJEU has consistently held that the requirement to affect trade is satisfied if it is:

> *"… possible to foresee, with a sufficient degree of probability on the basis of a set of objective factors of law or of fact, that the agreement [or conduct] in question may have an influence, direct or indirect, actual or potential, on the pattern of trade between Member States."*[2]

Application of Article 101

Below is a non-exhaustive summary of some of the key principles arising from the application of Article 101:

- The effect on trade described in Article 101(1) must be "appreciable". [3]
- The European Commission's (the "**Commission's**") Guidelines indicate that Article 101 can apply irrespective of where the undertakings are located or where the agreement has been concluded.[4]

[1] There are currently 28 Member States in the European Union.
[2] See e.g. Case 56/65 *Société Technique Minière v Maschinenbau Ulm GmbH* [1966]
[3] Case 22/71 *Béguelin Import v S.A.G.L. Import Export* [1971]
[4] Commission Notice on Guidelines on the effect on trade concept contained in Articles [101] and

Restrictions relating to the exploitation of technology solely outside Europe will generally not fall within the remit of Article 101, but can do if they have an appreciable effect on trade between Member States. In the context of licences involving a US party therefore the following scenarios may arise:

- US licensor and EU licensee – this licence may not trigger EU competition law if there is no or little EU trade but will do so if there is an appreciable effect on trade between Member States.
- EU licensor and US licensee – this licence may not trigger EU competition law if the market for the relevant goods is wholly in the US but will do so if there is an appreciable effect on trade between Member States.
- US licensor and US licensee – this licence is unlikely to trigger EU competition law however there is the possibility of it doing so. For example where a distribution agreement relating to distribution of goods outside the EU prohibited importation into the EU it has been held by the CJEU that this could have an appreciable effect on trade between Member States[5].

- No evaluation as to whether the influence on trade is positive or negative needs to be undertaken – even agreements which increase trade can be caught.[6]
- It is enough that the pattern of trade is affected between just two Member States.[7]
- The fact that an agreement promotes or prevents the marketing of a product in just a single Member State does not preclude that agreement from influencing the pattern of trade in another Member State.[8] That being said, technology licences are more likely to affect interstate trade if they form part of a technology licensing network which extends beyond just one Member State.
- Generally intra-group agreements would not be caught by Article 101 as the agreements are not between independent undertakings, although care must be given to establish the nature of the intra-group structure and whether there is in fact a measure of independence between the entities.
- IP licences between competitors are more likely to trigger Article 101 than agreements between non-competitors.

Market Thresholds Required to Trigger Article 101

The Commission has provided guidance[9] on when there will be an "appreciable" restriction on trade. Agreements are incapable of appreciably affecting trade when the parties' aggregate market share does not exceed 5% of any market and the annual aggregate turnover of the parties within the Community is no more than €40 million (in the case of a licence the relevant turnover is the aggregate turnover of the licensees in the products incorporating the licensed technology and the licensor's own turnover in those products)[10]. Such agreements normally fall outside Article 101 even if they have *as their object* the prevention, restriction or distortion of competition. Put simply, although agreements which have as their object these effects are viewed as particularly questionable by the Commission it has been held that agreements falling below this threshold will rarely trigger competition concerns.

There is a further related test which applies to agreements which have *as their effect* the prevention, restriction or distortion of competition within the internal market; these agreements are viewed less unfavourably by the Commission than agreements which have as their object these effects. If the aggregate market share held by the relevant parties to an agreement does not exceed 10% on any of the relevant markets affected by the agreement (in the case of competitors) or 15% (in the case of non-competitors) the

[102] [2004] C 101/07 (the "Notice") and Case C-89/85 A. *Ahlstrom v Commission* [1988]

[5] Case C-306/96 *Javico International v Yves Saint Laurent Parfums* [1998]

[6] Case 58/64 *Consten and Grundig v Commission* [1966]

[7] Irish Sugar [1997] OJ L258/1 and "Commission notice – Guidelines on the effect on trade concept"

[8] Case C-295/04 to C-298/04 *Manfredi v Lloyd Adriatico Assicurazioni SpA* [2006]

[9] Commission Notice on Guidelines on the effect on trade concept contained in Articles [101] and [102] [2004] C 101/07 (the "Notice")

[10] See paragraph 52 of the Notice for the applicable guidelines on calculating the €40 million euro threshold for different agreements.

Commission has stated that these will not fall under the prohibition in Article 101(1).[11] The lower threshold for competitors is due to their greater anti–competitive risks; agreements between non-competitors are largely recognised as having a higher propensity to create economic benefits and lower propensity to cause harmful effects.

Technology Transfer Block Exemption; a safe harbour from Article 101

Technology transfer agreements usually consist of the granting of a licence under which the licensee is authorised to exploit IPRs by manufacturing, marketing and selling goods or services. The Technology Transfer Block Exemption Regulation ("**TTBER**")[12] applies to agreements concerning patents, software copyright, designs, utility models and know-how[13] and offers a safe harbour from Article 101(1). In other words, agreements which fall under the remit of the TTBER will be assumed to satisfy the conditions of Article 101(3) (copied above) and assumed not to be anti-competitive. The TTBER was originally introduced on recognition by the relevant authorities that technology licensing is generally pro-competitive[14] (EU regulators in the 1960's and 70's having been keen to limit the scope for IP licensing partly due to concerns over EU market partitioning). Specifically the latest TTBER, which has been in effect since 1 May 2014, includes the following statement:

> *"[Technology transfer agreements] will usually improve economic efficiency and be pro-competitive as they can reduce duplication of research and development, strengthen the incentive for the initial research and development, spur incremental innovation, facilitate diffusion and generate product market competition."*

Applicability of the TTBER

The TTBER is available if the parties' combined market share in either the market for the licensed product or the market for the technology protected by the IPR is 30% or less (in licences between non-competitors) or 20% or less (in the case of competitors). Under these thresholds technology transfer agreements are considered by the Commission generally to lead to an improvement in production or distribution and to allow consumers a fair share of the resulting benefits.

The TTBER does not apply to multi-party agreements[15] (i.e. agreements between more than two parties) and therefore does not cover licence agreements between patent pools and third parties.

The Commission has considered a range of restrictions which are almost always anti-competitive. These are known as hard-core restrictions and their presence in a licensing agreement will make the whole agreement unexemptible under the TTBER. In agreements between competitors the hard core restrictions include price fixing arrangements, limitations of output, market allocation clauses, and licensors restricting the licensee's ability to carry out R&D and exploit its own technology. As between non-competitors the hard core restrictions include price fixing, territorial restrictions and restrictions of active and passive sales to end-users by a licensee which is a member of a selective distribution system (a supply network with a limited number of outlets in a particular geographical area).

No-challenge Clauses Under the TTBER

The Commission has also set out a series of further restrictions, known as excluded restrictions, which are not exempted under the TTBER.[16] Unlike hard core restrictions, these are only void in themselves (assuming that on assessment they are considered not to fall

[11] Commission Notice on agreements of minor importance which do not appreciably restrict competition under Article 101(1) of the Treaty on the Functioning of the European Union (De Minimis Notice) [2014] C 291/01

[12] The latest version of which is Commission Regulation (EU) No 316/2014

[13] Although "ancillary" IPR (such as trade marks) can be included in a licence governed by the TTBER if it enables the licensee to better exploit the core licensed technology.

[14] In the recitals to the TTBER, it is also acknowledged that the creation of IPRs often entails substantial investment and is often risky.

[15] Article 1 and Article 2(1) TTBER

[16] Commission Notice on Guidelines on the effect on trade concept contained in Articles [101] and [102] [2004] OJ C101/81 (Trade Guidelines)

within the exceptions contained in Article 101(3) - it can however be an onerous burden for parties to show they fall within Article 101(3)); the clauses should not affect the remainder of the agreement. There are three restrictions which are considered in this vein: (i) an obligation on the licensee to assign rights in respect of its own improvements to the licensed technology; (ii) in respect of non-competitors, obligations restricting the licensee's ability to carry out R&D or exploiting its own technology; and (iii) any obligation on the licensee not to challenge the validity of IPRs held by the licensor (also known as "no-challenge clauses").

No-challenge clauses are typically included in licence agreements to mitigate against attacks on the licensor's rights. Such clauses can also form an important part of settlement agreements, the primary purpose of which is to settle existing disputes and/or to avoid future disputes. The basis for the position adopted by the Commission is that preventing the challenge of invalid IPRs is uncompetitive – invalid IPRs can stifle innovation and create barriers to entry for competitors. For example in *Windsurfing International Inc v Commission*[17] the CJEU stated that it would be in the public interest to eliminate any obstacle to economic activity which may arise where a patent is granted in error. In the decision the Commission's view was referred to:

> *"even where a licensee is only able to challenge a patent because of the information which has become available to him as a result of his privileged relationship with the licensor, the public interest in ensuring an essentially free system of competition and therefore in the removal of a monopoly perhaps wrongly granted to the licensor must prevail over any other consideration."*

The Commission has also noted[18] that licensees are normally in the best position to determine whether or not a particular intellectual property right is invalid. Therefore preventing those in the know from challenging validity could be anti-competitive.

On the other hand, there has been recognition by the CJEU that the right to challenge the validity of patents can be opportunistically misused by licensees seeking to avoid paying royalties or seeking to adopt a rival technology[19]. Additionally, invalid patents may not necessarily restrict competition; due to the public availability of patents even those ultimately held to be invalid can inspire further innovation.

The Commission states that Article 101(1) is likely to apply to no-challenge clauses where the licensed technology is valuable and therefore creates a competitive disadvantage for undertakings that are prevented from using it or are only able to use it against payment of royalties. In such cases the conditions of Article 101(3) are unlikely to be fulfilled. The Commission adds that if the licensed technology relates to an outdated process not used by the licensee, or if a licence is granted for free, it will not be considered anti-competitive. In the context of normal commercial transactions and typical licence scenarios, it is difficult to see, in light of this guidance, when a no-challenge might fall within the exemptions provided by the TTBER (licensees usually only take licences when they need to and typically royalty payments form part of the agreement).

No-challenge clauses in the context of settlement agreements have also been considered by the Commission. Previously these were considered in a similar vein to no-challenge clauses more generally. For example in *Bayer AG v Heinz Süllhöfer*[20] the CJEU stated that "*Article [101](1) TFEU makes no distinction between agreements whose purpose is to put an end to the litigation and those concluded with other aims in mind*." This decision was referred to in a later UK Patents Court decision[21]. In circumstances where parties were part of an oligopoly in the field (vehicle brake systems) and both were trading throughout the EU, it was said that on the face of it a no-challenge clause (contained within a settlement agreement) was likely to distort competition and affect trade between Member States. Although there was no need to reach a conclusion as to whether the clause was void

[17] Case 193/83 [1986]

[18] Para 134, Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements.

[19] Case 65/86 *Bayer AG and Maschinenfabrik Hennecke GmbH v Heinz Süllhöfer* [1988]

[20] ibid

[21] *Knorr-Bremse Systems v Haldex Brake Products GmbH* [2008] EWHC 156 (Pat)

or not it was held that there was at least a good arguable case it was.

The latest Commission guidelines indicate no-challenge clauses in settlement agreements are considered to fall outside Article 101(1) although "*can under specific circumstances be anti-competitive*"[22], for example if an IPR was obtained on the basis of incorrect or misleading information or if the licensor induces, financially or otherwise, the licensee to agree not to challenge the validity of the IPRs or, perhaps more importantly, if the technology rights are a necessary input for the licensee's production. In light of this last stipulation again therefore in the context of licences of commercial significance it appears that no-challenge clauses in settlement agreements could face close scrutiny by the Commission (or it might be unwise to assume otherwise). Additionally it was held in *Punter of England* (discussed below) that these guidelines may be relevant to settlement agreements falling outside the remit of the TTBER (e.g. settlement agreements in relation to solely trade mark matters).

Terminate on Challenge clauses under the TTBER

There was a small but significant change that took place when a revised version of the TTBER came into force on 1 May 2014. Previously the "old" 2004 Regulation exempted from Article 101(1) agreements which allowed for the "*possibility of providing for termination of the technology transfer agreement in the event that the licensee challenges the validity of one or more of the licensed intellectual property rights*."[23] In other words, although a licensee was able to challenge the validity of the IPRs subject to the licence the licensor could respond by terminating the licence. These so-called terminate on challenge clauses were not considered anti-competitive.

The position has now changed. The Commission recognises that these clauses can have the same effect as no-challenge clauses, in particular where switching away from the licensor's technology would result in a significant loss to the licensee or where the licensor's technology is a necessary input for the licensee's production. In those circumstances the licensee may be so disincentivised to challenge validity (and run the risk of termination) that they will ultimately not take this action. In the Commission's words:

> *"The public interest of strengthening the incentive of the licensor to license out by not being forced to continue dealing with a licensee that challenges the very subject matter of the licence agreement has to be balanced against the public interest to eliminate any obstacle to economic activity which may arise where an intellectual property right was granted in error."*[24]

The Commission currently considers that the balance currently lies in favour of ensuring invalid IPRs are not used to stifle innovation and therefore terminate on challenge clauses now no longer fall within the remit of the exemptions of the TTBER.

There is however an important exception in the case of exclusive licences – terminate on challenge clauses in exclusive licences are not excluded from the scope of the TTBER (assuming the market threshold tests are satisfied). This is logical; the licensor of an exclusive licence may find itself in a situation of dependency as the licensee will be their only source of income as regards the licensed rights. In situations where the royalty payments are dependent on production, the licensor may have little ability to compel into action a licensee who, for whatever reason, no longer makes significant efforts to develop, produce and market the relevant products. Therefore, the incentives for licensors to licence out (as explained above, this is generally regarded as pro-competition) may be diminished.

In summary therefore, under EU competition law, both no-challenge and terminate on challenge clauses are looked upon unfavourably and will not automatically be exempted from the restrictions under Article 101(1) (and in light of the Commission's guidance it would appear to be unwise to rely on the possibility of exemption under Article

[22] Para 243, Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements

[23] Commission Regulation (EC) No 772/2004

[24] Para 138, Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements

101(3)). However, these restrictions are not hard-core restrictions and therefore their inclusion is unlikely to render the agreement as a whole anti-competitive. Although they may be found to be unenforceable the risk that this has a further reaching consequence than unenforceability of the clause alone would appear to be low (unless, for example, it is shown that the inclusion of the clause has such a deterrent effect on licensees that the ultimate effects are to create an anti-competitive agreement). Licensors may decide therefore to attempt to include the clauses as a deterrent in full knowledge that the clauses might be unable to withstand scrutiny by the Commission.

One effect of the treatment of these clauses adopted by the Commission could be the "front loading" of royalty payments. Licensees seeking revocation of a patent for example would very likely cease paying royalties if the challenge is successful. Therefore the incentive for licensors to seek higher royalties near the beginning of the licence period would be increased. This contrasts with the frequently adopted position of allowing a period of time for a licensee to undertake development work and marketing of its new technology and structuring the deal so higher royalties are payable when there is a more reliable and consistent revenue stream.

No-challenge Clauses Outside the Remit of the TTBER

The enforceability of no-challenge clauses in trade mark licences was recently considered by the UK Intellectual Property Enterprise Court in *Punter of England v Chancellor, Masters and Scholars of the University of Cambridge*[25]. The case concerned the inclusion of a no-challenge clause in a settlement agreement between the parties. The claimant asserted, among other things, that the no-challenge clause was unenforceable. Although the agreement (being a settlement agreement concerned with trade marks) did not fall within the remit of the TTBER, His Honour Judge Hacon's analysis is useful in re-iterating the key issues associated with these clauses.

The settlement agreement in question included a general agreement not to sue:

> *"4.1 Each Party agrees, on behalf of itself and on behalf of its parent company, subsidiaries, assigns, transferees, representatives, principals, agents, officers and directors, not to sue or commence, voluntarily aid in any way, prosecute or cause to be commenced or prosecuted against any other Party, or any other Party's parent company, subsidiaries, assigns, transferees, representatives, principals, agents, officers and/or directors, any claim, action, suit or other proceeding relating to the Released Claims [being the subject of the settlement agreement], in this jurisdiction or any other."*

It also included an agreement by the claimant not to challenge various trade marks owned by the defendant:

> *"4.2 Without prejudice to the generality of Clause 4.1, each of Parties C, D and E agrees not to file, or procure, authorise, enable or assist any third party to file, any applications to invalidate, or challenge Party A's ownership of, any of the trade marks licensed under the Trade Mark Licence Agreement; nor to oppose any applications by Party A to file the same or similar marks as UK or Community trade marks in respect of any goods or services, or to challenge the resulting registrations or Party A's ownership thereof."*

A few years after entering into the settlement agreement, the relationship between the parties deteriorated and the claimant sought revocation of some of the defendant's trade marks. The claimant asserted that the no-challenge clauses were unenforceable, relying on the European Commission case of *Moosehead/Whitbread*[26] in which it was said that a no-challenge clause may constitute a restriction of competition within the meaning of Article 85(1) [now Article 101(1)]. *Moosehead* clarified the circumstances in which a restriction of competition might apply:

[25] [2015] EWHC 3678. This is a case in which Powell Gilbert acted for the defendant (an entity holding a large number of registered trade marks, mostly taking the form of the word "Cambridge", "University of Cambridge" and/or including the associated University crest).

[26] L100/52 [1990]

> *"in order for any restriction of competition to fall under Article 85(1), it must be appreciable… Only where the use of a well-known trademark would be an important advantage to any company entering or competing in any given market and the absence of which therefore constitutes a significant barrier to entry, would this clause which impedes the licensee to challenge the validity of the trademark, constitute an appreciable restriction of competition within the meaning of Article 85(1)."*

The current version of the Commission's guidelines[27] (discussed above) therefore do not appear to deviate from the general principle that has been adopted in cases like *Moosehead*. Whether a particular no-challenge clause breaches competition rules needs to be considered in light of all the facts – as discussed above, agreements where their inclusion causes a significant barrier to entry or those where the value of licensed technology is great will be of particular concern to the Commission.

The need for careful consideration of the facts of each case was emphasised in *Punter*, as was the need of the parties to plead their case clearly if asserting infringement of competition law (because, for example, defining the relevant product market can be an important and contentious issue and a defendant needs to fully understand the case being made against it in this respect).

Ultimately, in *Punter*, the no-challenge clause was held valid. The judge clarified that no-challenge clauses in a trade mark licence agreement do not, of themselves, offend Article 101(1). The claimant had not pleaded a proper case setting out all the relevant facts, which it would be required to do in circumstances where each case turns on its particular facts. The judge also stated that if the clause had been found to be within the scope of Article 101(1) the defendant would have been able to rely on the Commission's Notice on Agreements of Minor Importance (discussed above), the small scope of the claimant's business in relation to any relevant product market falling below 10%.

Governing Law / Jurisdiction

Governing law and jurisdiction are distinct concepts. Jurisdiction determines which country's courts will hear any claim that is brought under an agreement. Governing law is the law that will be applied by the courts hearing a claim made under the agreement.

As explained above, EU competition law is relevant to agreements which have an effect in the EU. Choosing a particular governing law and jurisdiction of a contract therefore cannot seek to overcome the "effect" of the contract. In this article we do not aim to summarise differences between governing laws and jurisdictions; ultimately the choice of what these are decided to be is a matter of negotiation between the parties and each will have a view on what is acceptable to be included in the agreement. It is important to note however that situations can arise when the governing law is amended (or even first agreed upon) close to the time of signing a particular contract – in these circumstances it is unlikely that the provisions of the contract themselves and their enforceability will have been considered in light of these last minute changes. It is therefore important to give consideration to these "boiler plate" clauses at an early stage.

Brexit: Implications for IP agreements

The terms of the UK's "Brexit" from the EU are unlikely to become clear for some time, however it may be beneficial for organisations to review existing and potential future IP agreements in view of the possible outcomes.

This includes, for example, licence agreements, co-existence agreements, franchise agreements, distribution agreements and joint development agreements for example.

We set out below some practical considerations that may arise and also the potential implications of the UK leaving the EU

[27] Guidelines on the application of Article 101 of the Treaty on the Functioning of the European Union to technology transfer agreements

in respect of the competition law regime discussed in this paper:

Rights

Community wide rights – Any agreements relating to community wide rights will need review. These rights include Community trade marks, Community Registered Designs, and sui generis database rights.

European Patent Office rights – European patent applications, and national patents arising from granted EP patents are unaffected by Brexit, as the European Patent Convention which governs such rights is independent of the EU. Agreements should therefore be unaffected solely by the presence of such rights.

Clauses

Territory – if the EU is specified as a territory, this will need consideration and possible revision.

Defined terms – If the EU is defined in relation to any other aspect, then this also warrants consideration.

Enforcement and governing law – it is possible that pan-European remedies, such as cross-border injunctions, would no longer cover the UK, and similarly UK courts may not be able to offer pan-European injunctive relief.

Duration – the triggering of Article 50 sets a 2 year period of time for negotiating the terms of the UK's withdrawal from the EU, and it is currently expected that Article 50 will be triggered in March 2017. Therefore, any agreements which have a defined term of approximately two years or less are unlikely to be affected.

Governing law and jurisdiction – As the parties' choice of governing law and jurisdiction is generally upheld under common law, it is unlikely that these clauses will be impacted (although note that post-Brexit, in the absence of agreement between the parties, the EU and UK courts may apply different tests for establishing governing law and jurisdiction).

Actions

Current agreements – If changes are required in light of Brexit, then parties to the agreement may take this opportunity to renegotiate other terms also. Timing of changes should therefore be contemplated. For example, early revision of an agreement may be more preferable for one or other party.

Future agreements – These should include terms anticipating Brexit, for example to secure equivalent protection in the UK for EU rights, or to stipulate conditions for renegotiation upon the UK leaving the EU. Where possible, agreements should be drafted with the UK treated separately from the rest of the EU.

UK National Competition Law

If the result of Brexit negotiations is that EU competition law one day plays no part in the UK, the parties may still have recourse to UK national competition law (which currently governs anti-competitive activities within the UK). Competition law is governed by the Competition Act 1998 (the "Competition Act"). Section 2 of this legislation is copied below:

> *"(1) Subject to section 3, agreements between undertakings, decisions by associations of undertakings or concerted practices which—*
>
> *a) may affect trade within the United Kingdom, and*
> *b) have as their object or effect the prevention, restriction or distortion of competition within the United Kingdom,*
>
> *are prohibited unless they are exempt in accordance with the provisions of this Part.*
>
> *(2) Subsection (1) applies, in particular, to agreements, decisions or practices which—*
>
> *a) directly or indirectly fix purchase or selling prices or any other trading conditions;*
> *b) limit or control production, markets, technical development or investment;*
> *c) share markets or sources of supply;*
> *d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing*

them at a competitive disadvantage;

e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

(3) Subsection (1) applies only if the agreement, decision or practice is, or is intended to be, implemented in the United Kingdom."

There are significant similarities between these provisions and those of Article 101(1) (and also, not copied, similarities between the abuse of a dominant position provisions under section 18 of the Competition Act and Article 102 TFEU. However, naturally, under section 2 of the Competition Act, the requirement is for trade to be affected within the UK, rather than "between Member States". Additionally, unlike the EU provisions section 2(3) of the Competition Act also clarifies that there has to be implementation of the agreement, decision or practice in the region in which the effect takes place.

Practically speaking, UK competition law may apply to agreements which do not fall within any block exemption within the TTBER. However if those agreements fall within the scope of an EU block exemption, they are automatically excluded from the scope of section 2 of the Competition Act by virtue of the "parallel exemption" provisions of section 10 of that act.

P&WF page white and farrer
european IP

Virginia Driver,
Page White and Farrer

Virginia is a partner at Page White and Farrer and has worked in the intellectual property field since 1982. The technical areas she covers include electronics and electrical engineering, and information technology.

Virginia's particular expertise includes telecommunications, computing (hardware and software), E-commerce, business methods, semiconductor technology, processor architecture, and networking technology.

Virginia's professional experience covers opinion work, portfolio management and competitor surveillance, as well as written and oral representation in opposition and appeal proceedings before the EPO.

Virginia Driver
Partner, Page White and Farrer

+44 (0)20 7831 7929
virginia.driver@pagewhite.com

Bedford House
John Street
London WC1N 2BF

www.pagewhite.com

Alex Driver,
Powell Gilbert LLP

Powell Gilbert is recognised as one of the UK's leading specialist Intellectual Property law practices. They offer legal services across the entire field of IP, including patents, trade marks, copyright, designs and confidential information.

Alex is an associate at Powell Gilbert and has worked on a range of contentious and non-contentious intellectual property related matters, including patent litigation in a variety of fields, trade mark issues and copyright agreements. Alex has experience of commercial and intellectual property matters in the UK High Court, the Intellectual Property Enterprise Court and the European Patent Office.

Alex Driver
Associate, Powell Gilbert LLP

+44 (0)20 3040 8154
alex.driver@powellgilbert.com

85 Fleet Street
London
EC4Y 1AE

www.powellgilbert.com