SLAUGHTER AND MAY/

CLIENT BRIEFING

[30 SEPTEMBER 2021]

INTELLECTUAL PROPERTY (JOINT VENTURES): CROSS-BORDER

AN OVERVIEW OF INTELLECTUAL PROPERTY ISSUES ON A CROSS-BORDER JOINT VENTURE

In certain sectors, in particular in technology and life sciences, it is common for companies to combine forces in order to maximise business opportunities. Only rarely can a single company undertake every aspect of (for example) invention, development and exploitation by itself. A company may decide to contract out such activities, or to collaborate with a third party with different skills or resources. Such a collaboration may take the form of a joint venture.

This note considers the main contractual issues relating to intellectual property (IP) rights that are likely to arise in an international joint venture. Despite the trend towards international harmonisation of IP rights, the rules relating to the protection and enforcement of IP rights are still primarily to be found in national laws. On any international transaction it therefore remains necessary to consider local laws applicable to the relevant rights, and, if necessary, to take local legal advice.

The individual IP rights that will be relevant to any particular joint venture will, of course, depend on the business of the joint venture.

It is assumed for the purpose of this note that two companies are establishing a joint venture in the form of a limited liability company and that the joint venture will undertake research and development (R&D) together with production and distribution. It is also common for companies to combine forces in a joint venture without establishing a separate corporate entity for this purpose. Many of the IP issues referred to in this note will also apply to such a "contractual" joint venture. In these circumstances, however, as there will be no legal distinction between the joint venture partner companies and the joint venture, the licensing of IP rights by one joint venture partner for use by the joint venture may require disclosure of those rights to the other joint venture partner.

It is helpful to analyse IP issues relating to joint ventures in the context of the three phases of a joint venture:

- Formation.
- Operation of the joint venture.
- Termination.

This note covers issues with international and cross-border relevance from the authors' English law perspective. The application of competition law to the IP aspects of joint ventures must also be considered carefully.

1. Formation

1.1 Rights to be contributed by each party

On formation of the joint venture, the key issue is to establish what IP rights will be contributed to the joint venture by each of the joint venture parties, and at what time. In many respects, this is a similar process to the due diligence exercise which must be carried out when acquiring IP rights on the sale of a business:

- Establish whether the IP rights that will be needed by the joint venture are owned by the joint venture parties, or whether they are licensed (or sub-licensed) to them by third parties and, if so, who pays for this licensing and any related third party consent costs.
- Consider whether there is a need for the parties to disclose any know-how and other relevant IP-related information, or transfer other rights relating to domain names or social media accounts to each other and/or to the joint venture.
- Whether warranties or indemnities regarding such matters as ownership and non-infringement should be given.
- Decide upon the value to be attributed to the IP rights.

Such an approach will be especially relevant where the IP rights are particularly valuable within the context of the transaction, or where one party is contributing IP rights and the other is primarily contributing capital.

Valuation of IP rights is important, as the IP rights may form a key component of each party's contribution to the joint venture, and may have an important impact on the ultimate balance of power between the joint venture parties. Tax issues are also important to consider at this stage of the joint venture.

1.2 Access to rights

It is then necessary to consider how the rights will be injected into the joint venture and at what time, which will in turn depend on the degree of access to or ownership of the rights which the joint venture parties wish to retain.

Generally, joint venture parties prefer to license the necessary rights rather than transfer them absolutely by way of assignment. Where patent rights are concerned, it is often more desirable from a portfolio management perspective to keep patent families together as opposed to splitting them by means of an assignment. Crucially, an assignment could also mean the loss of the rights on the insolvency of the joint venture, whereas a licence normally gives the licensing party greater control (for example, enabling it to terminate the licence in specified circumstances, such as the financial difficulty of the joint venture).

In addition, by expressing a licence to expire at the end of the term of the joint venture or upon certain financial events, the rights automatically revert to the joint venture party upon that event occurring. A similar result may be possible on an assignment by providing for the automatic re-assignment of the rights at the end of the joint venture, but this requires additional steps at the end of the joint venture, and could mean that the rights are more likely to be lost if the joint venture becomes insolvent. Official IP registers would need to be updated for each change of ownership. It may also involve complicated valuation and tax issues.

The key terms of any licence or assignment should be settled. A licence or assignment should be formalised in writing and contain all the usual commercial terms, as (among other factors) the arrangement may continue after the relevant party has disposed of its interest in the joint venture.

In the case of a licence, it is necessary to decide:

- Whether it will be exclusive (so that only the joint venture may carry on the licensed activities, to the exclusion of the licensor itself and all third parties), sole (where only the joint venture and the licensor may carry on the licensed activities, to the exclusion of third parties), or non-exclusive (so that there is no restriction on the licensor carrying on the licensed activities or permitting others to do so).
- What will be the scope of the licence (both in terms of the geographical coverage of the joint venture and any restrictions on its use of the underlying rights)?
- Will there need to be a co-existence regime in relation to the licensed rights (in order to avoid confusion in the market, for example, as to ownership of the licensed rights)?
- Will the joint venture have the right to sub-license the licensed rights, and if so, to whom and for what purpose?
- Who will have the right to bring and defend infringement claims and how will any contribution or proceeds be divided?
- Who will be responsible for the maintenance and prosecution of the licensed rights and who pays the costs of this?
- Will warranties on such issues as title, validity and infringement be appropriate? Will the licence be subject to valuable consideration or no consideration?
- What form of payment will be made? Royalties on sales of products may be appropriate in a production joint venture, but an initial payment may be appropriate in a joint venture purely for R&D where royalties will not arise.

Some of these outcomes will have tax implications for the parties to the joint venture and the joint venture itself.

In the case of an assignment, consider whether a partial assignment may be appropriate where, for example, the rights in question are for a particular territory. Where rights are to be licensed back to the parties by the joint venture, consider the appropriate payment which is to be made for this benefit.

Consideration should also be given as to when IP rights will be injected into the joint venture. If the joint venture is speculative and certain IP rights are particularly valuable and confidential, then it may be worth delaying their injection until they are absolutely required and the joint venture has made some progress.

The contribution of IP rights may affect what other resources should be contributed to the joint venture. For example, the contribution of patents or know-how will be compromised if the personnel who have knowledge of the underlying technology are not transferred or made available to the joint venture.

2. Operation of the joint venture

2.1 Ownership of new technology

The question of who owns new IP rights created by the joint venture is of fundamental importance, particularly in the case of joint ventures whose main object is to generate new IP rights through R&D.

In the absence of a specific provision in the joint venture agreement, the default position at law as to the ownership of IP rights will apply. In general, this provides that the creator of the IP right will own that right, except in the case of works made by employees in the course of their employment, where generally the employer will be the owner. This may result in the ownership of any given new IP vesting in the joint venture company itself, being co-owned by the joint venture company and either or both of the joint venture partners, or the ownership of various IP rights in a service or product being separately owned by any of these parties.

Regulating the ownership of new IP rights is therefore often preferable. If it is intended that ownership of new IP rights created by the joint venture should vest in one or both of the joint venture partners, an assignment to the joint venture partner of the relevant new IP rights will be required. Another ownership option is co-ownership of the new rights by the joint venture partners as well as, or instead of, the joint venture. This may be suggested from a commercial perspective as a straightforward approach to sharing the benefits of the joint venture's research.

In many jurisdictions, however, laws relating to co-ownership of IP rights make this an unattractive option in practice. In the UK, for example, the general position is that co-owners may only exploit the jointly held rights themselves, and each co-owner may not assign or license the rights to third parties without the consent of the other co-owner (which may not be forthcoming if the other has a different policy towards the exploitation of the rights).

Other jurisdictions prohibit separate exploitation without the consent of the other co-owner. In the US, on the other hand, co-owners of patent rights have considerable freedom to exploit the rights individually (though this can mean that rights could be devalued if, for example, one party decided to license the rights widely or at very low royalty rates). If one or both of the joint venture partners are to own the new IP rights, it will be necessary to provide a mechanism for identifying those rights and transferring ownership of them back to the relevant joint venture partner, and for licences to be granted back to the joint venture. However, any arrangement which gives a parent exclusive control over new IP rights created by the joint venture under licence from that parent may not be viewed favourably from a national or an EU competition law viewpoint (if relevant).

Whichever model of ownership is selected, the parties will have to decide what, if any, rights each of the joint venture partners will have to use the new IP rights. In particular, will either of the joint venture partners be permitted to use those new IP rights to compete with the joint venture or with the other parent? Likewise, will the joint venture be restricted from using its newly created IP rights to compete with either of the joint venture partners? Each of these restrictions would require a national and EU competition law analysis (if applicable).

The question may also arise as to whether the joint venture should have access to new IP rights that are independently developed by the joint venture partners, where those rights are relevant to the research or business of the joint venture. Provision may be made, for example, for any such rights to be automatically licensed to the joint venture, or for the joint venture to have an option over the rights, in which case it will be necessary to agree procedures to identify such rights and to decide what payment and other terms which will apply to such arrangements. Again, where relevant, national or EU competition law considerations should be borne in mind here.

2.2 Protection of new technology

It will be important to consider what steps are to be taken to protect and maximise the value of newly developed IP rights. For example:

- Should the joint venture be obliged to file for protection of and, where possible, proceed to registration of all registrable rights? The joint venture partners may have different views on whether a particular invention (assuming it to be patentable) is in fact worth patenting, or as to the territories in which a patent should be registered.
- How will the costs of such filings (and ongoing maintenance costs) be borne and to what extent will the joint venture partners be bound to assist in the process?
- How will infringements of the rights by third parties be dealt with? The interests of the parties may not always be aligned. For example, one party may have close commercial relationships with a third-party infringer of the joint venture's technology, and may not want the other party or the joint venture itself to commence proceedings against that infringer.

2.3 Exploitation of new technology

Consideration must be given as to who will exploit the new rights: the joint venture itself, one or both of the joint venture partners or a third party? Appropriate assignments or licences of the rights in favour of the exploiting party may be needed (addressing the licensing-related issues referred to in Access to rights, above). In the EU, restrictions on the access of any party to rights generated by R&D undertaken by it must be considered carefully from a competition law viewpoint.

3. Termination

In the case of a corporate joint venture, there may be no need to deal individually with IP rights on termination of the joint venture as the share capital of the joint venture company may vest in either joint venture partner through such mechanisms as put or call options. In this case, however, there may still be a need to deal with licences between the joint venture and the exiting joint venture company.

Alternatively, there may be competing claims for ownership of and rights in the IP rights of the joint venture. It is therefore important to consider at the outset how these rights are to be dealt with upon termination.

The main issue is to decide to which party or parties the rights should be transferred. One party might be granted a first option over some or all of the rights. Another possibility is to provide that any licences granted to the joint venture company will automatically terminate upon termination. This is common in respect of trade marks of the joint venture where those trade marks contain elements of trade marks of the individual joint venture partners. Different solutions may apply depending on the reason for termination of the joint venture agreement. For example:

- Where termination is on the grounds of the default or financial difficulties of one of the parties, the agreement may provide that all existing licences to the defaulting party cease, as do its rights to any further licences under the agreement.
- Where one party withdraws from the agreement in circumstances permitted by the agreement (for example, on the sale of its interest in accordance with any specified pre-emption provisions), the agreement could provide that the right of the withdrawing party to future licence rights ceases, but that existing licences continue subject to certain further terms (for example, royalty provisions). There may be specified events in relation to one party (for example, the acquisition of that party by a competitor or intervention by a regulator) which, while not amounting to a default, still entitle the other party to terminate. In such cases, the agreement may provide that the right of the "exiting" party to further licences ceases, but that existing licences continue. A similar solution may be appropriate in circumstances where each party has a unilateral right to terminate, as may sometimes be found in R&D joint ventures where the nature of the research is particularly uncertain or speculative.

In the above scenarios and indeed any others which are contemplated by the parties, it is important always to consider the impact that termination provisions in the IP licensing arrangements will have on the overall commercial objectives of the joint venture.

The Corporate Insolvency and Governance Act 2020 amends the Insolvency Act 1986 and the Companies Act 2006, and may impact the operation of ipso facto contract termination clauses.

4. Competition law

The application of national and EU competition laws (if relevant) may have an important bearing on the structure of the joint venture from an IP perspective, particularly where the joint venture is for the purpose of R&D. Competition law should therefore be considered at the earliest possible stage.

5. Exhaustion of rights - post Brexit

The impact of Brexit on the current regime surrounding the exhaustion of IP rights and parallel imports is an area which could affect the trading arrangements of a joint venture. This is closely linked to the politically charged issue of EU/UK trade arrangements and there is uncertainty over the long-term regime that will apply.

Currently, IP rights exhausted both in the EU and the UK under EU law will remain exhausted in both territories. This means that, once goods bearing a registered trade mark (or which are otherwise protected by IP rights) have been sold anywhere in the EEA with the rights holder's consent, the rights holder cannot prevent those goods from being resold elsewhere within the EEA.

The UK government's aim after the end of the Brexit transition period (which ended 31 December 2021) is to ensure that, once a product has been legitimately placed on the market in the EEA, that product can continue to be resold into the UK without being prevented by the rights holder. However, as the UK did not reach an agreement with the EU on a reciprocal regime, the UK has been left with a one-way exhaustion regime. This means that rights holders could restrict the parallel importation of certain goods from the UK into the EEA that have not previously been put on sale in the EEA. As a result, businesses undertaking such activities will need to check with the EU right holder to see if permission is needed.

It is unclear what will happen in relation to non-EEA countries as the Regulation is silent on the issue of parallel trade from the UK to third countries. However, it is assumed that the existing regime is intended to continue.

The UKIPO has recently sought views on the UK's future regime for the exhaustion of intellectual property rights which will underpin the UK's system of parallel trade. The call for views ran from 7 June 2021 until 31 August 2021 and recommendations are expected soon on what exhaustion regime should be implemented, and if there is to be a change, how any change should be implemented.

Summary of intellectual property rights

- **Patents.** The inventive aspect of a new product or process with industrial application and which is non-obvious may be protected by a patent. Patents are national rights and there is variation between countries as to what inventions qualify for patent protection. It is also possible to obtain a European Patent which is granted by the European Patent Office (EPO). These are centrally processed but are in effect bundles of national patents, which are enforceable in whichever of the 38 states the patentee has designated in Europe. A new unitary patent right in Europe, the Unitary Patent, will provide patent owners with another option for protection in Europe. However, after a long period of uncertainty the UK government has confirmed that the UK will not participate in the new system. This right which has been agreed but is not yet in force, will also be administered by the EPO and will give protection in up to 25 countries in Europe. Unitary Patents will not come into force until ratification of an agreement governing a new patent litigation system, the Unified Patent Court, which will provide central enforcement of Unitary Patents together with existing and future European Patents. Germany has recently resolved its ratification issues, and early reports are that the system could be in operation some time in 2022. If it does, it may give rise to a number of issues relating to the licensing of Unitary Patents and European Patents, including whether or not to opt out of the exclusive jurisdiction of the Unitary Patent Court. Patents can be granted for many matters, such as chemical compounds, drugs, mechanical devices (such as a can-opener) and methods for doing things (for example, a new process for dyeing fabric). In some jurisdictions, such as France and Germany, there is a similar but lesser form of protection in the form of petty patents (also known in some jurisdictions as utility model patents or utility certificates).
- **Copyright.** This protects the form in which ideas are expressed (but not the ideas as such). A wide range of literary, artistic and other works are protected by copyright and, importantly, computer software may be protected by copyright. Rights in copyright works are national but, as a result of international conventions, most types of copyright work are automatically protected in most countries. Examples of literary works protected by copyright could include (depending in certain jurisdictions on the level of creativity involved in producing them) design specifications, reports, marketing plans, instruction manuals, materials stored on disks or transmitted over the internet or by means of intranets, computer software and, in certain circumstances, databases (though databases are also afforded separate protection in the EU: see below). Examples of artistic works could include (subject to the same qualification as to creative input) flow diagrams, charts, maps and graphic design materials such as product packaging or promotional materials.
- **Database right.** In the EU, the database right is a specific right which protects databases (that is, collections of data organised so that their contents can easily be accessed, managed and updated) in which there has been substantial investment in obtaining, verifying or presenting the contents. Under the UK-EU withdrawal agreement holders of sui generis database rights arising before the end of the transition period will be accorded an equivalent UK right with the same term of protection as the EU right. Databases may also be protected, in certain circumstances, by copyright.
- **Rights in designs.** Certain novel designs for products may be protected as designs; for example, designs for household goods, sports equipment and fashion items. These may be protected by the UK registered design right, the EU registered design right or the EU unregistered design right. After the UK leaves the EU, EU design rights will no longer cover the UK and so IP owners will need to maintain both EU and new UK rights to have comparable protection to the rights they hold now. For existing EU registrations and unregistered rights, comparable UK rights were granted at the end of the transition period. In the UK, a separate unregistered design right protects certain aspects of the shape or configuration of an article which are not commonplace, which after the transition period will run alongside UK supplementary rights derived from the EU unregistered design right.
- **Trade marks.** A trade mark is any sign which can be graphically represented and used to enable the purchasing public to distinguish one trader's goods or services from the goods or services of other traders. The sign may be words, for example "Christian Dior", a shape such as the triangular shape of "Toblerone" chocolate, or even a colour or a sound. Registration of a trade mark protects the use of the mark in relation to a specific class of goods or services. Registered trade marks are granted on a national basis, although

in the EU it is possible to obtain EU trade marks which cover all EU countries. After the transition period, these rights will not cover the UK and trade mark owners will need to maintain EU and new UK rights going forward. As with EU registered designs, comparable UK rights were granted for existing EU trade mark registrations, but not pending applications (pending applications will be permitted a nine-month grace period during which they can file UK applications for the same rights and take advantage of the same filing, priority and seniority dates as the corresponding EU applications). There is also an international system for making an application across various signatory countries in the form of the Madrid system.

- **Passing off and unfair competition.** Trade marks (whether registered or unregistered) may also be protected in some jurisdictions under passing off or unfair competition laws. These forms of protection may be slightly wider than registered trade mark protection, insofar as they may protect not only the mark itself, but also the trading style or manner of presentation of goods or services. However, before commencing an action for passing off, for example, it must be shown that the business has established goodwill in a particular trading style or logo, and that such goodwill has been damaged by the alleged unlawful activities. Goodwill may be difficult to prove in the case of a joint venture which has only just started trading.
- **Confidential information and trade secrets.** Although not IP rights as such, national laws of confidential information and trade secrets prevent the use or disclosure of confidential information or trade secrets in certain circumstances. These laws may be particularly useful where information which is valuable to a business cannot be protected by IP rights. Technical know-how, for example, can be protected as confidential information or trade secrets. While a patent will provide its owner with a monopoly to exploit the relevant trade secrets for up to 20 years, it requires disclosure of the invention claimed and competitors will be free to use that invention at the end of the patent term. Companies therefore commonly rely on laws of confidential information to protect their trade secrets, so as to avoid having to disclose those secrets in the patent application process. Indeed, the publication of an invention before a patent is applied for will in most cases destroy any prospect of subsequent patentability. Harmonised legislation in the EU has been adopted to align existing national laws on the protection of trade secrets. Brexit does not directly affect the law in the UK on trade secrets or confidentiality.
- **Domain names.** Domain names had long been thought of as a contractual relationship between a domain name registrar and an applicant to provide the exclusive right to use the domain name. This may be about to change with the first instance decision in Hanger Holdings v Perlake Corporation SA, where the High Court concluded that a domain name is actually intangible property like copyright and trade marks. In practical terms, it means that other High Court judges are not bound to follow this decision. Until there is an appeal to a higher court, the debate as to whether domain names are intangible property, rights to use or something else will not be fully resolved.

CONTACT

ROB SUMROY
PARTNER
T: +44(0)20 7090 4032
E: rob.sumroy@slaughterandmay.com