



**Licensing 2014**

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*Getting the Deal Through* is delighted to publish the sixth edition of *Licensing*, a volume in our series of annual reports, which provide international analysis in key areas of law and policy for corporate counsel, cross-border legal practitioners and business people.

Following the format adopted throughout the series, the same key questions are answered by leading practitioners in each of the 26 jurisdictions featured. New jurisdictions this year include Argentina, the Netherlands and Russia.

Every effort has been made to ensure that matters of concern to readers are covered. However, specific legal advice should always be sought from experienced local advisers. *Getting the Deal Through* publications are updated annually in print. Please ensure you are referring to the latest print edition or to the online version at [www.GettingTheDealThrough.com](http://www.GettingTheDealThrough.com).

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**Getting the Deal Through**

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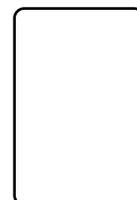
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# United Kingdom

Sally Shorthose and Mohammed Karim

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## Overview

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

In principle, there are no restrictions on a foreign licensor owning shares in a UK company or being involved in a joint venture.

It is also very common for a foreign licensor or joint venture involving a foreign licensor to enter into an agreement without establishing a subsidiary or branch office. The exception to this would be a highly regulated industry such as pharmaceuticals where, for regulatory purposes, a 'responsible person' needs to be established in the European Union.

It is also straightforward for a foreign entity to set up an entity in the UK. This is likely to comprise either:

- a sole tradership (ie, the entity is working for itself, not for someone else);
- a limited company (which will require a registered office and at least one director based in the UK a shareholder, articles of association (agreed rules about running the company) and registration for corporation tax; or
- a partnership.

It is possible to carry out business from an address in the UK. The business must be registered with Companies House by completing Form OS IN01 within one month of opening, as prescribed by the Overseas Companies Regulations 2009. The required information includes:

- its name and address;
- the nature of its business;
- the name and address of its authorised representatives and details of their authority to bind the company;
- name and address of any person authorised to accept service on behalf of the company;
- the overseas company's constitutional documents; and
- on occasion, accounting information.

In certain circumstances, when setting up business in the UK an entity may need to apply for a licence, depending on what the business is. For example, a licence would need to be obtained before carrying out oil and gas exploration.

There are a number of rules relating to the employment of people, and also the bringing in of workers from another country.

## Kinds of licences

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

The UK (technically England, Wales, Scotland and Northern Ireland) has, quite possibly, the widest range of licences anywhere in the world. Licences are frequently entered into in all industries and sectors in order to facilitate exploitation of intellectual property. Examples that are frequently seen are as follows:

- Technology transfer licensing (including patent and know-how licensing), whether in the context of a joint research and development collaboration or as a stand-alone licence where the licensee has the exclusive capacity to use the relevant intellectual property in the jurisdiction. Technology transfer licensing is subject to EU and UK competition laws (see later for further review of these issues in questions 31 and 32).
- Software licensing is extremely widespread and the forms of these vary; sometimes the licensee will simply pay an upfront fee for which it will be entitled to a perpetual licence to the relevant software. However, it is frequently seen that these licences need to be upgraded regularly to reflect improvements to the software and the upfront payment may not actually give the licensee the coverage intended.
- Trademarks are often licensed, either in a context of a distribution agreement where the licensor manufactures products and these are distributed by the licensee, or where the licensor delegates not just the distribution but the manufacture as well to the licensee. These agreements tend to have both detailed quality control provisions and detailed royalty provisions (this is dealt with later in this chapter).
- In the music and entertainment industry, it is not uncommon to see celebrity or character licensing, which can be seen as a form of franchising or merchandising agreement. The owner of the rights in the character will license these to the licensee under strict controls, often as a spin-off of a TV or film production. Celebrities and brands alike can enter into sponsorship and endorsement agreements.

Other examples of licensing include:

- domain name licensing;
- plant breeder's rights and plant variety licences; and
- register designs and design rights.

While there is no specific legislation dealing with licensing, there are references in certain intellectual property related statutes such as the Trade Marks Act 1994 (sections 28 to 31), the Copyright Designs and Patents Act 1988 (CDPA) (section 90) and the Patents Act 1977 (PA).

In the UK, there are also very narrow compulsory licences and licences of right. For example, in the last five years of the term of a design right, section 237 of the CDPA entitled any person to obtain a licence to do any thing as regards the design right that would

otherwise infringe the design right. The terms of such a licence will be settled by the comptroller in the absence of agreement. As a result of EU regulation there is compulsory licensing of patents relating to the manufacture of pharmaceutical products for export to countries with public health problems.

### Law affecting international licensing

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

The legislation that most closely governs the creation, or regulation of terms, of an international licensing relationship will be competition (antitrust) laws. These laws were introduced to prevent anti-competitive behaviour with or between competitors, suppliers and customers. For example, as a rule of thumb five years is the longest term for which an exclusive relationship between two parties can be entered into in an exclusive supply agreement, although patent licences tend to run for the life of the patent. These laws can also affect freedom to determine royalty rates and particularly bonuses for taking a high proportion of requirements from a supplier.

There is no legislation that provides that certain products have to be purchased locally or any other equivalent provisions.

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

While to some extent much is up to the licensor and the licensee themselves as to whether they make pre-contractual disclosure, a basic tenet is that one must not induce a party into entering a contract by making a misrepresentation. In some circumstances, silence can amount to misrepresentation, and in order to avoid rescission of the contract or an order to pay damages to the licensee, the licensor would be advised to make some disclosure. It is not uncommon in a major licence to carry out a due diligence process similar to that which would be carried out prior to an acquisition of a company. However, it is also not uncommon, particularly in software licences, for no pre-contractual disclosure at all to be made.

Despite there being no particular requirements to register a grant of international licensing rights with authorities in the UK, it is normal for an exclusive licensee to register their licence with the UK IPO and or the EPO to put third parties on notice of their interest in the intellectual property.

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

The overarching principle here is 'freedom of contract', where the ability to decide the terms of contracting or licensing is still held sacred, so long as the bargain was freely entered into by both parties. Other than as set out in the Unfair Contract Terms Act 1977, therefore, there are no obligations that a licence agreement be fair or reasonable, where such a licence is negotiated and settled by the parties.

Historically, the view has been that notions of good faith or fair dealing have no place in English common law (see *Walford v Miles* [1992] – no general duty to act in good faith when forming or performing contracts). However, EU legislation has introduced the concept of good faith into certain statutes (for example, control over unreasonable terms in consumer contracts in the Consumer Contracts Regulations 1999 and mutual duties of good faith in commercial agency arrangements in the Commercial Agents (Council Directive) Regulations 1993) and recent case law suggests that this is slowly changing, at least in the context of decisions made within

existing contractual relationships (see *Lymington Marina* [2007], for example).

While English law does not recognise a general duty to act in good faith, such a duty may be implicitly imposed by a court into 'any ordinary commercial contract' through the court's powers to imply terms by reference to the parties' intentions (*Yam Seng* [2013]). Terms are implied if (i) the term is so obvious that it goes without saying, or (ii) the term is required to give business efficacy to the contract. Therefore, any implicit obligations analogous to 'good faith' or 'fair dealing' would be entirely dependent on the circumstances of the case in question. The practical implications of the English courts' willingness to imply terms currently amount to little more than an obligation of honesty.

There is no such good faith or fair dealing obligation in respect of termination, which may be done for any or no reason, so long as it is provided for within the licence or contract. However, where a contract is silent on term or termination rights, either party may terminate giving 'reasonable notice' (*Winter Garden Theatre* [1948]). 'Reasonableness' depends on the circumstances of the case at hand and is judged having regard to the time that the notice is provided, not at the date of the contract (*Martin-Baker Aircraft Co* [1955]).

Notwithstanding the above, certain implicit obligations are implied by statutes such as the Sale of Goods Act 1979 (as amended) and the Supply Goods and Services Act 1982 (as amended) in contracts in the UK. These include warranties that goods sold will match their description, be of satisfactory quality and be fit for purpose and that the seller will have the right to sell those goods. Similar obligatory warranties will be implied with regard to any agreement for services.

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

The law of franchising and the laws applicable to the grant of licences are closely aligned (and indeed not strictly differentiated) but are generally treated quite differently in practice. While a significant part of a franchising relationship is often the grant of a licence to a trademark, and possibly also to trade secrets (such as recipes), there are also many other commercial terms, such as an obligation to purchase products exclusively from the licensor and the methods of carrying out the business; these obligations take the relationship outside the normal realm of a pure licence. In the franchise arrangement the franchisee uses another firm's successful business model and brand name to operate what is effectively an independent branch of the company. Notwithstanding this independence, the franchisor maintains a considerable degree of control over the operations and processes used by the franchisee. It will often provide marketing support and ensure an element of exclusivity so that branches do not cannibalise each other. A licensee is likely to have rather broader freedom to operate within the business.

### Intellectual property issues

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

- Paris Convention – Yes (in force since 1884).
- PCT – Yes (in force since 1978).
- TRIPs – Yes (in force since 1995).

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

The use of such provisions is not as such prohibited, but if their inclusion can be seen to affect competition, and to comprise a

restraint of trade, there may be some restrictions. The Transfer Technology Block Exemption Regulation (TTBER) is due to expire in 2014; this provides a framework, acceptable under competition rules, for determining licensing arrangements of patents, know-how and copyright, but not currently other intellectual property rights. One of the key provisions under the current regime is that the licensee's right to challenge the validity of the licensor's intellectual property is permissible, provided that the consequence of challenging that intellectual property is that the agreement can be terminated. A wholesale prohibition on challenge could be unlawful under competition law. It is, however, proposed that under the new and replaced TTBER the ambit of the excluded restriction to such termination rights will be extended on the basis that the termination right will have the same effect as the no challenge clause, as the licensee may have sunk significant costs and be deterred from challenging validity. It is likely therefore that any prohibitions and challenges are going to be unlawful.

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

A pure patent licence will normally terminate on the expiry or invalidity of the patent over which the licence is granted.

The provision under EU competition law is that a clause in a licensing agreement whereby the licensee is not entitled to manufacture or sell the product in question after the termination of the agreement constitutes, where the licence relates to a patented product and the patent has expired, a restriction of competition and is therefore prohibited. However, it is seen that a clause in such an agreement providing that a licensee of patented invention is required to make payment for an indeterminate period in respect thereof even after the expiry of the patent will also constitute a restriction of competition except where extension of the payment after the expiry of the patent is merely a method of payment of the inventor's fair reward. It is also seen on occasion that the period during which royalties are payable is extended beyond the life of the patent in respect of the continued use of confidential know-how.

If a licensed registered trademark or registered design becomes invalid or expires, the licence might still be enforceable as a licence of an unregistered trademark right or design right unless:

- the licensee demonstrates that the invalidity or expiry is a repudiatory breach of the licence agreement, that is, a breach so fundamental to the essence of the licence agreement that it means the licensee is entitled to terminate the licence agreement;
- the licensee demonstrates that the validity and existence of the registered right was a condition of the agreement; or
- the contract is frustrated.

Copyright, unregistered trademarks and design rights are not registered in the UK, so it is not possible for their registrations to become invalid or expire.

It is advisable to include express provisions in the licence to address what should happen if the underlying intellectual property rights expire or are modified, including whether the licensee can compete freely against the licensor after the expiry or termination of the licence.

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

There are no requirements with unique foreign owners regarding the requirement to have original registration or evidence of use in the jurisdiction or origin. That said, as with any registration process,

there will be certain steps to overcome and the registration, whether for a patent trademark or design right, will be open to challenge from other entities that they have prior right to such intellectual property or object in some way.

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

Yes – it is theoretically possible to assign or license any property right, so long as the grant is sufficiently certain. It is also common to tie in unregistered rights in a trademark (such as goodwill) when assigning the registered mark. Future rights that have yet to arise may also be prospectively licensed.

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

### Validity

#### Patents

There is no requirement for a patent licence to be in writing or to be signed by either or both the licensor and licensee, but it is advisable in order to clarify terms.

Where the licence is jointly owned, each co-owner may exploit the patent itself, but unless there is an agreement to the contrary one co-owner may not grant a licence without the other co-owners' consent (section 36 of the PA).

#### Trademarks

A licence of a registered trademark must be in writing and signed by the licensor to be effective (section 28 of the Trade Marks Act 1994 (TMA)). There are no requirements for licensing unregistered trademarks.

#### Copyright, design rights and registered designs

There is a lack of clarity as to whether non-exclusive copyright, registered design and design right licences must be in writing and signed by the intellectual property owner to be valid (copyright – section 92 of the CDPA; registered design – section 215 C(i), Registered Design Act 1949 (RDA); design right – section 225 of the CDPA), but it is advisable.

An exclusive licence in writing, signed by the intellectual property owner, will allow the licensee a statutory right to enforce that licence against a successor in title, as if such successor in title was the original intellectual property owner that granted the licence (section 92 of the CDPA).

If in writing, the intellectual property licence must satisfy the English law requirements in creating a contract (in short: intention to make legal relations, consideration and offer and acceptance) and not conflict with the prevailing competition laws. In practice, however, since competition law states that an unlawful agreement can be unenforceable, give rise to fines and third-party claims it is advisable to include a clause that is unlawful will be severed from the agreement, thereby saving the agreement's validity under competition law.

### Opposable

As previously mentioned, it is common and good practice for exclusive patent and trademark licensees to register their licences with the IPO or EPO and also at Companies House so that it will become apparent if anyone does a search against the relevant company's name. This prevents someone with a later claim from acquiring a better title than the licensee (section 33 of the PA and section 25 of TMA). If an exclusive licence is not registered within six months, an exclusive patent licensee loses the right to claim costs or expenses arising prior to the registration of the licence (section 68 of the PA). Failure to register a trademark will generally mean that:

- the licence is ineffective against a person acquiring a conflicting interest under the mark who is unaware of the licence;
- the licensee does not have the rights and remedies available to a licensee in relation to infringements (under section 25(3) of the TMA); and
- if the licence is not registered within six months of the date of the licence then the licensee will not usually recover its costs in proceedings for any infringements that occurred before the licence was registered.

#### Copyright

A copyright licence will be binding on every successor in title to the copyright owner, other than a purchase in good faith for valuable consideration without notice of the licence (section 90(4) of the CDPA). Although there is no particular requirement in the UK to make such a licence opposable to a third party, it is advisable for licensees to obtain a warranty from their licensor that they will provide notice of the licensee's right to any other licensees or prospective purchasers.

#### Registered designs and design rights

A registered design licence is opposable to a third party if registered with the Design Registry at the UK IPO (section 15B(2) of the RDA).

A licence of a design right is binding on every successor in title, expect a purchaser in good faith for valuable consideration without notice of the licence (section 222 of the CDPA). However, there are no particular requirements to make such a design right licence opposable to a third party.

#### Security

It is possible to take a security interest in intellectual property and to register this interest at the relevant registry. This is an increasingly common means of, for example, exploiting the value in the copyright in an artist's back catalogue.

Briefly, the types of security that are available to be taken over IP include a mortgage, a fixed charge or a floating charge. The mortgage is the most secure and comprehensive form of security interest and involves the transfer of title to an asset by way of a security for particular obligations, on the understanding that it would be transferred in due course when certain issues or obligations have been fulfilled. This process does involve the preparation of complex documentation and complex perfection requirements and will frequently involve continued maintenance of the IP (preventing infringement and maintaining registration).

A fixed charge is slightly different from a mortgage in that no transfer of title or assignment is involved; rather, an encumbrance is created over the IP. Sometimes, this is taken at the same time as the security-taker holding an executed form of assignment in escrow if it needs to enforce the security.

Sometimes the assets can only be identified as a group rather than individual rights (eg, copyright as opposed to a particular patent) and therefore it is not possible to take a mortgage or fixed charge. A floating charge may be taken in those circumstances.

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

There is nothing to prevent a foreign owner or licensor of intellectual property instituting proceedings against a third party for infringement, without joining the licensee from your jurisdiction as a party to the proceedings, in particular if this is set out in the

relevant patent licence. The drafting of enforcement clauses affects the licences and can be contentious. Section 67 of the PA provides that the holder of an exclusive licence under a UK patent has the 'same right as the proprietor of the patent to bring proceedings' in respect of any infringement of a patent committed under the date of the licence, provided that the proprietor of the patent is also made a party to such proceedings. As such, the exclusive licensee can be awarded and retain damages as compensation for the loss it suffered as a result of the infringement. The statutory provision can be and is from time to time varied so that the licensor may modify the terms of the licence in order to retain control even though the licensee has the statutory right to bring such proceedings.

Where a licensee is bringing a case against the same infringers, the court may require the licensor and licensee to join their actions (section 25 of the TMA, section 101 of the CDPA). The parties can agree to the contrary. Parties should have an obligation to notify the other of infringements.

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

Since a licence is effectively a right to use what remains the licensor's property in a defined way, the licensee may only exercise those rights that are specifically granted to them within the licence. There is no statutory right to sub-license in the event that this is not included within the terms of the licence itself.

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

The UK is a 'first to file' jurisdiction. Under section 30 of the PA, an application for a patent constitutes personal property, and as such rights in it can be transferred or granted as they can be with any other personal property. This includes the granting of licences.

Even if the licence was not made under an obligation to keep the use confidential, such licence would not be a novelty-destroying disclosure in the UK as priority would be claimed from the original patent application and not from the date of when the patent application in the UK shall be made.

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

#### Software

Under section 1(2)(c) of the PA, software is not patentable per se, though the code is subject to copyright. However, this view appears to be changing over time, and as a result of *Symbian Limited v The Controller of Patents* (among others), where the software leads to a substantive technical effect, there appears to be a greater inclination to allow for patent protection.

#### Business processes

Under the same legislation, business processes or methods are not in themselves patentable. However, as with software, things that appear to be business processes have been deemed patentable where they lead to a technical effect, rather than just an isolated methodology.

#### Living organisms

Nothing will be deemed unpatentable purely on the basis that its construction is a biological one. However, the human body and any process for cloning the human body are excluded. Also, if the

product is derived from human embryos, and its extraction or production involves the destruction of human embryos, then such a product shall also be deemed unpatentable.

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

The area of trade secrets and know-how is of particular importance and has been the cause of considerable litigation over the past few years; there is no specific legislation, however, which governs the protection of know-how and trade secrets. It is particularly prevalent in the financial services industry where the rights in know-how and trade secrets can be more valuable than any other intellectual property rights such as patents or copyright.

The 'law of confidentiality' protects trade secrets. In order for trade secrets to be protected, it is necessary to establish that the information has the necessary quality of confidence and that anyone who has access to it owes the owner a duty of confidence, and should therefore sign a non-disclosure agreement. If the recipient discloses that information, this constitutes a breach of confidence and legal action can be taken against them. It is common in such agreements to state that equitable remedies will be appropriate in the event of any breach of confidence so that the owner of that confidence can obtain an injunction to prevent further disclosure rather than simply claiming damages. The courts do recognise the value of trade secrets and will take steps to protect the interests of persons or businesses to whom an obligation of confidentiality is owed, and where disclosure would cause damage.

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

It is completely normal within a licence agreement for the licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties both during and after the term of the licence agreement. The period post-termination during which the confidentiality provisions apply can be another point of contention. The licensee is likely to want this to be a very short period but the licensor might quite legitimately say that the trade secrets should never be permitted to be disclosed.

It is not uncommon for a distinction to be made in respect of improvements to which the licensee may have contributed, but nonetheless there will be ongoing obligations of confidentiality relating to technology that is linked to or on which the improvements have been based. These provisions are to be considered in the light of the 'licence back' provisions discussed in question 11.

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

Copyright protection in the UK subsists automatically, without any requirement for registration or other formalities. Where a person creates an original and permanent:

- literary, dramatic, musical or artistic work;
- sound recording, film, broadcast or cable programme;
- typographical arrangement of published editions; or
- database,

then it will be protected by copyright, which will, in most cases, run for 70 years from the death of the (last) creator or author, as applicable. There are a number of nuances and variations to this, but it illustrates the relative longevity of the right that subsists.

It is advisable to keep some sort of record of the date of creation of the work in the event that ownership rights need to be proved at some point in the future.

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

Since the owner of copyright is the creator of the work (unless that author or creator is an employee and then his or her employer owns the copyright) it is very important in licences that involve the creation of copyright by the licensee to be assigned from the licensee to the licensor so that the licensor can maintain a complete body of copyright work. Having said this, where a licensee has created severable improvements, the TTBER provides that an automatic assignment or exclusive licence back to the commissioner will not be enforceable and will be in breach of that block exemption. Under the new rules that are being implemented in 2014, it is thought that even the assignment back of severable improvements may become unlawful if likely to result in a detrimental effect on competition.

### Software licensing

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

Although the term 'perpetual' licence is common in software licensing it was held in a recent case (*BMF Computer Solutions Ltd v AB Agri Ltd* [2010]) that a perpetual licence, while held to be of indefinite duration, was also found to be terminable. So to this extent English law does not recognise a perpetual software licence as being interminable; if interminable is the intention then this should be used in the relevant licence. It is therefore important when drafting software licences to spell out the parties' intentions about what exactly perpetual and interminable actually mean. Furthermore, the period of the licence cannot extend the life of the underlying copyright (from 50 years for computer-generated work to life of the author plus 70 years). Software, however, has a limited lifespan in practice.

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

An exclusive copyright licence should be in writing and signed by or on behalf of the copyright owner. There are equivalent restrictions regarding the import of goods (including software) and certain goods are banned from being imported into the UK. For the majority of industrial goods an import licence is not needed but again, where there is a security angle or international sanctions there is every chance the particular import licence and perhaps tariff will need to be secured.

There may be export restrictions on the licensing of certain software particularly if the goods (software) are included on the UK Strategic Export Control List. These are essentially military projects and related items.

- 23** Who owns improvements and modifications to the licensed software? May a software licensee obtain bug fixes, upgrades and new releases from the licensor in the absence of a contractual provision to that effect?

Without express provision for the same, the licence cannot make improvements. An agreement should normally determine whether improvements and modifications to the licence software can be made and who owns them. A well-drafted agreement would make provision for ownership of these items but in the absence of a contractual

provision to that effect, because of UK statutory and case law, it is very likely that the licensee will be the owner of improvements even though it may not be able to exercise those improvements without access to the underlying technology. Case law indicates that a commissioner will receive some limited licence to work as it is commissioned in the absence of an agreement and this case law can be applied by analogy to the situation where a licensee has made an improvement.

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

The ability of a software licence to include a process or routine to disable automatically or cause unauthorised access to disable, erase or otherwise adversely affect the licence software depends on the licence terms and whether the disabled right was exercised in accordance with those terms. It is thought that the use of such programs could amount to an implied breach of contract under statute, such as the Computer Misuse Act 1990, as this statute addresses traditional 'hacking' offences (ie, unauthorised access to a computer). This is confirmed by the underlying position in case law in relation to the Computer Misuse Act 1990. In practice any automatic shut-down arrangement that does not take the customer's position and any excuse that the customer has into account would run a strong risk of being in breach of contract.

Having said that, the use of such features is permissible and fairly widespread means of controlling licence software, subject to the introduction of certain safeguards. It is therefore not advisable to include such features without the licensee's knowledge.

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

The English courts have in a series of cases determined that not every bug or error in a computer program can be categorised as a breach of contract. This determination reflects the practice that a software licensor will usually have a software support obligation to fix bugs or errors; the inclusion of such support would be unnecessary if there was an inference that all software was error free (*Euro dynamic Systems v General Automation* (1988)). This subject was also considered in *Albans v ICL* [1996], where the supplier was held to be liable as the software did not meet a particular standard by a particular state that had been agreed between the parties. *ASM Business Systems v Headly & Co* [2003] should also be considered, where it was held that, in relation to a system that is in the process of continuing development, it will not be a breach of contract if software was initially delivered with a defect. In summary it is also best to set out in the agreement if there is a particular standard that must be achieved, for example if there are any business critical or safety critical applications that could not support a large number of errors.

More recently, in 2011 *Southwark LBC v IBM UK Ltd* [2011] EWHC 549 (TCC), inter alia, discussed the express terms requiring that the software be of satisfactory quality. This is the most recent application of the case *St Albans v ICL* [1996] 4 All ER 481. According to this case a supplier can be held liable if software does not meet a particular standard by a particular stage agreed between the parties. The extent to which an error is permitted will therefore ultimately depend on the terms agreed upon by the parties. The courts have, however, recognised that through regular software updates and process developments, which are generally undertaken under the support obligations within the licensing agreement, possible errors can be eradicated and will not amount to a breach of contract.

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

As yet, the validity of open source licences has not been tested in the UK courts.

There are no legal developments of note relating to open source software in the UK. However, in 2009 the UK government stated that it would actively and fairly consider open source solutions alongside proprietary ones in making its own procurement decision.

#### Royalties and other payments, currency conversion and taxes

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

There are no particular English/UK laws governing payments in international licensing relationships or requiring regulatory approval of payment.

As far as interest on late payments is concerned, if the contract does not specifically provide for interest or resulting costs incurred in recovery of overdue debts, then the creditor will be able to obtain a statutory minimum fixed interest and certain resulting recovery costs (Late Payment of Commercial Debts Act 1998).

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

There are currently no direct restrictions on the transfer and remittance of currency out of the UK. Notwithstanding this general provision, there are restrictions on the handling and transferring of criminal property abroad; this can act as an indirect restriction on the transfer of currency were such currency constitutes a person's benefit from criminal conduct and the transferor suspects that it constitutes or represents such benefit. Furthermore, if a person is travelling from outside the European Union and carrying a €110,000 or more (or equivalent in another currency) a cash declaration form must be completed.

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

Withholding tax can become applicable in respect of payment of patent royalties, copyright royalties and design right royalties (but not royalties payable for copyright in films). It is normally imposed where royalties are paid by UK licensees to non-UK licensors and the UK licensee is thus liable to income tax on the royalties. Provided that the licensor is not carrying on business from a permanent establishment in the UK, then the licensor's other source of income will not give rise to payment of UK taxes. The rate of withholding tax is 20 per cent, although a lower rate can apply if the licensor is established in a country that has concluded a double tax treaty with the UK. Normally under such a treaty, the licensor will be allowed a credit for the amount of withholding tax in the UK, which is tax paid in its own country in order to avoid double taxation.

A licensee in business will account for the reverse charge to value added tax (VAT) in respect of the royalty payment. The licensee would declare a liability to HMRC for VAT on the royalty payment, and at the same time, the right to reclaim such VAT in accordance with the licensee's VAT status.

### Update and trends

The most significant proposals for new legislation or regulation relate to those on the Transfer Terminology Block Exemption Regulation (TTBER). Although many of the guidelines are substantially similar to the current regime, there are some significant changes as follows:

- The exemption from the hard-core restrictions for provisions regarding passive sales into an exclusive territory or customer group allocated to another licensee during the first two years of that other licence will be removed. From now on, such restrictions will require assessment on a case-by-case basis. This change would bring the TTBER in line with other existing lot exemptions.
- The excluded restriction relating to exclusive grant-backs has been amended so that the restriction no longer just applies to severable improvements but to all technology. From now on all exclusive grant-backs will fall outside the exemption and will therefore require individual assessment.

- Changes are also proposed to the no-challenge clauses. Currently it is possible for the licensee to challenge the validity of the licensor's IPR, but it is acceptable for the licensor to have a right to terminate in the event such challenge takes place. The proposed changes to the TTBER extend the ambit of the excluded restriction so that termination rights on the basis of the termination right may have the same effect as a no-challenge clause, as a licensee may have sunk significant costs not to be deterred from challenging the validity. Once again, such clauses may be subject to individual assessment.

The revised TTBER clarifies that this exemption will only apply if other potentially applicable exemptions (ie, those covering R&D specialisation) do not apply.

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

The courts can give a judgment in any currency, including a foreign currency.

### Competition law issues

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

Such practices are governed at EU level, mainly by articles 101 and 102 of the Treaty on the Functioning of the European Union (TFEU). In brief, these prevent activities that, respectively, disrupt competition in free markets and that amount to abuse of a dominant position within a market.

As a result of these provisions, certain selling arrangements, price setting, tied selling, territorial/market restrictions, sourcing restrictions, refusals to deal or supply may be deemed unlawful under EU law if they have the actual or potential effect of restricting competition among member states. The potential scope and ramifications of these provisions is very broad.

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

The provisions of articles 101 and 102 TFEU can potentially cover any provision, so long as its effect is anti-competitive. However, since the duration of a licence will seldom lead to anti-competitive effect, there are no restrictions in respect of duration (though it is theoretically within the scope of article 101 and 102 still).

Exclusivity as a concept is permitted, and within the EU a licensor is entitled to restrict the licensee from actively soliciting business in certain countries. However, a licensor is not allowed to prevent a licensee from servicing any customer that approaches them within their licensed territory, no matter where the customer comes from (this is known as a 'passive sale'). The same reasoning applies for internet sales, which cannot be restricted on territorial grounds. Where the licensor has a small market share (less than 30 per cent of their market), passive sales restrictions in licences of patents, know-how or software are tolerated to a limited degree.

The rules on exclusivity are also applicable to non-compete restrictions, in that it is generally not possible under EU law to prevent a licensee from selling to anyone who approaches them within the EU. Where a clause forecloses access to distribution channels or technologies for third parties, these should be acceptable so long as

they do not exceed five years in term, in which case a view of the market should be taken in order to determine the clause's effect.

Grant-back provisions – being an obligation to either assign or exclusively license the licensee's incremental improvements – are permissible so long as their effect does not fall foul of the general provisions under articles 101 and 102 TFEU (ie, the licence is non-exclusive and does not involve disclosure of know-how communicated by the licensor that is still secret).

### Indemnification, disclaimers of liability, damages and limitation of damages

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

Indemnity clauses are a common means of risk mitigation in a wide variety of contracts and are, on the face of it, enforceable. Insurance coverage for the party giving an indemnity is legal, but will be granted subject to the insurer's terms and conditions.

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

Limitations on liability for certain types of damages are common and can be enforceable, subject to them complying with the 'reasonableness test' in UCTA. The reasonableness test requires that, having regard to all the circumstances that were known (or ought reasonably to have been known) by the parties at the time of contracting, the limitation is a fair and reasonable one. UCTA gives guidance at schedule 2 as to the considerations that should be had when deciding on a clause's fairness.

One exception provided for by UCTA, however, is on attempted limitations on liability for death or personal injury resulting from negligence: this cannot be allowed.

### Termination

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

The notion of freedom of contract applies equally to the right to terminate without limitation, subject to the agreed terms of a contract.

Therefore, the law of England and Wales does not impose conditions on the right to terminate or not renew a licensing relationship.

If a licensee is a 'commercial agent' for the purposes of the Commercial Agents (Council Directive) Regulations 1993, they may be entitled to compensation for termination of their continuing authority to negotiate the sale or purchase of goods on behalf of the principal. As a result, the majority of international licensing relationships are structured in a way that avoids the licensee falling under the definition of 'commercial agent'.

English courts have not generally applied commercial agency laws to licensing relationships. Only if there is an agreement that effectively establishes an agency (ie, where the 'agent' has the power to bind the principle) will the courts construe that an agency has been formed rather than a mere licensing relationship (see *VLM Holdings Limited v Ravensworth*).

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

The general principle is that a sub-licence is only as good as the head-licence and so, if the head-licence falls away, so does the sub-licence. However, as a result of *VLM Holdings Limited v Ravensworth* (where a 'sub-licensing agreement' was held by the courts to in fact be an agency agreement and so when the 'head-licence' terminated, the 'sub-licence' did not also concurrently cease), IP owners should include language in the head-licence that sets out the effect of termination on any sub-licence, so as to not rely on the (potentially changing) legal position.

#### Bankruptcy

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

When a licensee becomes insolvent, an administrator (or other insolvency practitioner) takes control of the licensee's assets and determines how best to distribute them in order to recover as much value as possible for the licensee's creditors. Frequently, the rights granted by the licensor to the licensee may be seen as valuable assets and sold by the administrator to a third party.

The insolvency practitioner has very wide powers and although the appointment of an administrator or insolvency practitioner will not in itself cause a licence to terminate unless the terms of the licence expressly provide that upon the administration or liquidation

of the licensor the licence will automatically terminate. It is therefore highly recommended for licensors to structure their licence agreements and take steps to ensure termination prior to insolvency and remove the licensee's rights.

#### Governing law and dispute resolution

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

There are no restrictions on an international licensing agreement governed by the law of another jurisdiction chosen by the parties. Indeed this is a common experience in the UK.

**39** Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another?

The parties can agree to various forms of 'alternative' dispute resolution, of which arbitration is one. In fact, the Civil Procedure Rules that govern the conduct of disputes actively encourage this, and the parties are unrestricted in agreeing the jurisdiction in which proceedings are held.

The parties can contractually agree to arbitration (or indeed other alternative methods of dispute resolution) rather than resorting to the courts of the UK jurisdiction. The arbitration proceedings can be held either in the UK or in any other suitable jurisdiction.

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

The UK is a party to the UN Convention on the Recognition and Enforcement of Foreign Arbitral Awards, and as such the decisions of foreign courts in this regard are ordinarily enforceable.

**41** Is injunctive relief available in your jurisdiction? May it be waived contractually? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Injunctive relief is available and is frequently sought in disputes relating to licences. It can be waived contractually. Proprietors are also entitled to waive their entitlement to claim specific categories of damage in an arbitration clause such as loss of profits.

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