

International Considerations in Licensing

**US Law Issues, Foreign Law Issues and
Related Cross-Border Considerations**

“Small companies that are not globally competitive create low-paying jobs”

--John Preston, MIT

International License: Why Should We Worry?

- **What, Me Worry? “We chose U.S. law to govern!”**
- **Can you ignore the international issues that may affect your license?**
- **What can you do to protect intellectual property rights internationally?**
- **Can you improve your position with careful drafting?**

What We Will Cover

- **Context: major differences in international licensing, by U.S. licensor**
- **Protecting intellectual property**
- **Selected U.S. laws affecting international IP licenses**
- **Other laws that affect the international license**
 - **Multi-lateral treaties**
 - **Local foreign law**
- **Drafting to “Internationalize” the license**

Protecting IP in Foreign Jurisdiction: Overview

- **Required filings and registrations**
- **Scope of protection**
- **Limitations on enforceability of license provisions**
 - **Local law “overrides”**
 - **Judicial/arbitral actions**

Trademarks

- **Must be protected in foreign jurisdiction**
- **Madrid Protocol:**
 - **Facilitation**
 - **Limitation**
- **First-to-file issues**
- **Recordation to:**
 - **Validate license**
 - **Permit licensee use to satisfy use requirements**
- **License provisions**

Patents

- **Must be protected in foreign jurisdiction**
- **Significant differences in**
 - **Rights obtained**
 - **Requirements to obtain**
- **Absolute novelty**
- **Software and business methods**

Weakened Contract Rights

- **Post-termination rights of licensee**
- **Restrictions on licensee restrictions**
- **Limits on liabilities, warranties**
- **Shrink-wrap, click-wrap, e-signatures**
- **Special consumer protection issues**
- **Practical enforcement**

U.S. Export Controls

- **BIS and EAR**
- **Re-exports and deemed exports**
- **Prohibitions, filings, licenses**
- **Exceptions**
- **License provisions supporting compliance**
 - **Representations regarding licensee, use**
 - **Restrictions on re-export**
- **Internet access issues**

Anti-boycott

- **U.S. persons and foreign affiliates**
- **Prohibitions**
- **Reporting**
- **Application to licenses**

OFAC

- **Sanctioned countries and persons**
- **Trade, travel, transactions**
- **“Transfers” outside U.S. of “property”: including IP**

FCPA

- **Improper payments to government officials**
- **And others**
- **Exceptions:**
 - **Routine and non-discretionary**
 - **Certain reasonable expenses if expressly permitted**

Examples of Consequences

- **Civil fines**
 - **EAR, FCPA--\$10K per violation**
- **Criminal penalties**
 - **EAR--\$50K per violation, 5 years**
 - **FCPA--\$1/2.5MM, 10 years**
- **Loss of privileges**
 - **EAR—export privileges**
 - **Anti-boycott—export privileges**

Antitrust: Extraterritorial Application

- **Foreign conduct with substantial U.S. effect**
- **Foreign Antitrust Improvements Act**
 - **Direct, substantial, foreseeable effect**
 - **Gives rise to claim under U.S. law**
- **Circuits disagree on second prong:**
 - **Fifth**
 - **Second**
 - **D.C.**

Taxation of International Licenses [Made Easy]

- **U.S. licensee subject to U.S. income tax on all license revenue**
- **Foreign withholding, other taxes**
- **Treaties may reduce/eliminate foreign tax**
- **Tax credit under IRC 901**
- **Credit limits under IRC 904**
- **IRC 367: torpedoed tax-free transfers to foreign affiliates**
- **Transfer pricing: IRC 482**

Choice of Law: Party Choice

- **The Doctrine of Party Choice and freedom of contract**
- **Must ensure that choice of law is an enforceable clause in a written agreement – otherwise, conflicts of law principles apply**
- **Individual terms may be governed by local law**
- **Must comply with procedural formalities**

Compulsory Licenses

- **Technology Transfer Laws (designed to encourage the use of technology)**
- **If patent not exploited for a term of years**
- **Public necessity exceptions to the protections of property rights**
- **Claims of abuse of market position**

Government Approvals

- **Mandatory filing requirements – license may need to be filed with governmental authority**
- **Filing requirements permit governmental oversight of the terms:**
 - **anticompetitive effects**
 - **illegal terms**
- **Filing requirements permit governmental oversight of royalties**
- **Ultimate penalty—license is not enforceable**

EU Competition Law

- **Significant restraint on freedom of contract**
- **Treaty of Rome – articles 81 and 82**
 - **Importance of complying with “block exemptions”**
 - **Grey List: legal restraints on trade**
 - **White List: terms regarded as generally not restrictive**
 - **Black List: per se impermissible terms (e.g. pricing restrictions, restrictions on R&D, restrictions on parallel imports, exclusive grant-back requirements and most production quotas)**

Limits on Licensor Protections

- **Warranty limitations/exclusions may not be enforceable**
- **Should make use of savings clauses (“to the extent permitted under applicable law....”)**

UN Convention: CISG

- **May apply to a License involving the sale of goods**
- **Affects issues of contract formation, evidence of agreement and remedies**
- **No price term required for contract formation**
- **Permits oral contracts, proven by any means**
- **Permits “all relevant circumstances” (i.e. parole evidence) to determine understanding, practices of the parties, usage, etc.**
- **Provides remedy of reduction in price**
- **Parties may opt out**

TRIPS

- **Trade Related Aspects of Intellectual Property Rights**
- **Requirement of developing countries to provide certain protections of intellectual property rights. Required to comply by 1/1/2000, unless “least developed”**
- **Requires “national treatment”**
- **Compulsory licenses require protections for patent holders**
 - **proposed user must first attempt to obtain authorization from rights holder**
 - **efforts must not have been successful in reasonable time**

EU Software Directive

- **Gives software users broad rights, regardless of license limitations**
- **Lawful acquirers of software can reproduce the program, or alter it, to ensure that it can accomplish its “intended purpose”**
- **An intended purpose may be “error protection”**

EU Data Privacy Directive

- **Provides extensive protections of personal data**
- **Data privacy treated as a fundamental human right**
- **Data processors must protect personal data, and cannot transfer the data to jurisdictions with appropriate data protection**
- **Department of Commerce “safe harbor” requirements**
- **If License creates possibility of data being exported from the EU, then the Directive applies**

EU Electronic Commerce Directive

- **Designed to foster electronic commerce, but from a consumer-protection standpoint**
- **Not as comprehensive as Electronic Signatures in Global and National Commerce Act, Uniform Computer Information Transactions Act (UCITA) or Uniform Electronic Transactions Act (UETA)**
- **Requires person making an offer to acknowledge receipt of an acceptance and the person accepting the offer to acknowledge receipt before an electronic contract is formed**

EU Distance Contracts Directive

- **Consumer Protection statute**
- **Applies to e-Commerce and other non face-to-face transactions**
- **Restricts contracts and allows consumers to withdraw**
- **Requires disclosures and other protections**

EU Electronic Signatures Directive

- **“Certified electronic signatures are the equivalent of a handwritten signature**
- **Non-certified signatures are not the equivalent of a handwritten signature, but will not be denied legal effect solely because electronic**

EU Distance Selling Directive

- **Consumer Protection Directive**
- **Trumps any choice of law clause in a License (e.g. overrides a shrink-wrap license)**
- **Countries are beginning to implement the Directive into national legislation**

Drafting Considerations: Dispute Resolution

- **Submission to jurisdiction**
- **“Local” litigation – “am I in hell yet?”**
- **Arbitration**
 - **must have properly written clause**
 - **must consider governing authority**
- **Enforcement issues**
- **No panaceas**

Compliance Issues

- **Allocate/assume responsibility for compliance with US law**
- **Allocate/assume responsibility for compliance with Foreign law**

Payment Clauses

- **US dollar payments**
- **Netting local taxes**
- **Allocate responsibility for duties**
- **Consider possibility of government oversight**
- **Consider possibility of exchange controls**

Some Key Considerations

- **License should provide for protection of IP**
- **License should provide allocate responsibility for local law requirements**
- **License should include disclosures/representations of key matters**
- **License should include promises for compliance with US law**
- **License should take into account tax consequences**
- **License should take into account payment limitations**
- **License should have appropriate enforcement mechanisms.**

“The most likely way for the world to be destroyed is by accident. That’s where we come in; we’re [legal] professionals. We cause accidents.”

--Nathaniel Borenstein (paraphrased!)

Terry W. Conner

terry.conner@haynesboone.com

Bradley J. Richards

brad.richards@haynesboone.com