

LES Benelux

Termination and Patent expiry/invalidation

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Topics

- Termination upon patent expiry
- Termination upon patent invalidation
- No-challenge clauses
- Precontractual obligations



Patent expiry

Termination of licences

Netherlands: Dutch contract law (1)

- Substantial freedom of contract
- Wording important, but intentions provide bearing for interpretation of wording
 - Contractual provisions are to be interpreted “*by the purpose that the parties to the agreement, in the given circumstances, could mutually reasonably have attached to the provision and by what they could reasonably have expected from each other in the respect*”
 - All specific circumstances of the case are to be taken into account
- Promises must be kept (‘pacta sunt servanda’)
 - Influence fundamental change of circumstances?

Termination of licences

Netherlands: Dutch contract law (2)

- Important role for ‘Principle of reasonableness and fairness’
 - Article 6:2(1) Dutch Civil Code: *“The creditor and debtor must behave themselves towards each other in accordance with the standards of reasonableness and fairness.”*
 - Article 6:2(2) Dutch Civil Code: *“A rule in force between a creditor and his debtor by virtue of law, common practice or a juridical act does not apply as far as this would be unacceptable, in the circumstances, by standards of reasonableness and fairness”*
 - Article 6:248(1) Dutch Civil Code: *“A contract not only has the legal effects agreed to by the parties, but also those which, according to the nature of the contract, apply by virtue of law, routine or the requirements of reasonableness and fairness”*
 - Article 3:12 Dutch Civil Code: *“In determining what reasonableness and fairness require, generally accepted principles of law, current juridical views in the Netherlands and the societal and private interests involved in the case must be taken into account”*
 - Supplement or derogate from existing license agreed by the parties
 - High standard (in practise?)
 - David v Goliath?

Termination of licenses

Netherlands: termination in general

- In general: Dutch law does not limit right to terminate license
 - But: not always possible to terminate license (e.g. fixed term)
- Continuing performance contracts may in principle be terminated for convenience:
 - Cause for termination
 - Reasonable notice period
 - What is a reasonable notice period?
 - Compensation for investments or costs made
 - Principle of freedom of contract
 - Parties intentions?
 - Reasonableness and fairness?
 - Rescission (“*opzegging*”) v Dissolution (“*ontbinding*”)

Termination of licenses

Netherlands: termination and patent expiry

- The expiry of a patent usually leads to the expiry of a related license
 - If there is no provision about the term of the license agreement
- License agreement may run beyond the lifetime of a patent
- Reasons to let the license agreement run beyond the lifetime of patent?
 - E.g. know-how, royalty model, etc.

Termination of licenses

Scenarios

- What are the termination options for a license agreement in the following scenarios (absent a termination clause)?
- Scenario 1:
 - License agreement runs until a fixed date after expiry of the patent.
- Scenario 2:
 - License agreement runs for an indefinite term and the patent has expired.
- Scenario 3:
 - License agreement runs for an indefinite term and the patent will expire in 15 years.

Termination of licenses

Example clauses

- Example 1:
 - *“This License Agreement shall commence on the Effective Date and shall, unless earlier terminated, continue until any termination of the License Agreement”*
- Example 2:
 - *“Unless terminated earlier pursuant to the terms of this License Agreement, this License Agreement shall continue until the date upon which all Patents in the Licensed Products have expired or lapsed and all the Know-How has become publicly known other than as a result of any action of Licensor or Licensee.”*
- Example 3:
 - *“Unless terminated earlier pursuant to the terms of this License Agreement, this License Agreement shall continue until the date upon which all Patents in the Licensed Products have expired or lapsed and all the Know-How has become publicly known other than as a result of any action of Licensor or Licensee, and so long as such date is a minimum of fifteen (15) years from the Effective Date.”*



Patent invalidation

Termination of licenses

Netherlands: invalidation of patent rights (1)

- Invalidation through Court and Opposition proceedings
- Invalidation can be in full or partial
 - Dutch Court may partially revoke a patent in the event that the patent covers an invention that is only partially new or inventive
- Effect limitation:
 - Article 138(3) European Patent Convention: *“In proceedings before the competent court or authority relating to the validity of the European patent, the proprietor of the patent shall have the right to limit the patent by amending the claims. The patent as thus limited shall form the basis for the proceedings”*

Termination of licenses

Netherlands: invalidation of patent rights (2)

- Again: license agreement may run beyond the lifetime of a patent
- Invalidation of a patent does not set aside an existing license agreement
 - Unless licensor and licensee agree otherwise.
- Guidance CJEU:
 - CJEU 7 July 2016, C-567/14 (Genentech): “Article 101(1) TFEU must be interpreted as not precluding the imposition on the licensee, under a licence agreement such as that at issue in the main proceedings, of a requirement to pay a royalty for the use of a patented technology for the entire period in which that agreement was in effect, in the event of the revocation or non-infringement of a licenced patent, provided that the licensee was able freely to terminate that agreement by giving reasonable notice.”
- Still an obligation for the licensor to perform?

Termination of licenses

Netherlands: invalidation of patent rights (3)

- Repayment of royalties?
 - In principle: no
- Article 75(6)(b) Dutch Patent Act:
 - *“The retroactive effect of the invalidation shall not extend to any agreement concluded prior to the invalidation insofar as it has been performed prior to the invalidation; however, in the interest of equity the repayment of sums paid under the agreement may be claimed to the extent justified under the circumstances”*
 - The legislator envisaged that repayment of royalties may be justified in the event that the royalties were determined on the basis of the long duration of the license agreement, which was terminated early following the invalidation of the patent
 - Seems to be focussed on advance payment of royalties; little guidance in case law

Termination of licenses

Scenarios

- What are the termination options for a License Agreement in the following scenarios (absent a termination clause)?
- Scenario 1:
 - Patent is invalidated in full and royalties have been paid in monthly instalments.
- Scenario 2:
 - Patent is invalidated in full and royalties have been paid by way of lumpsum.
- Scenario 3:
 - Patent is partially invalidated opening the possibility to create a workaround.

Termination of licenses

Example clauses: invalidation of patents

- Example 1:
 - *“The validity of this License Agreement shall not be affected by the fact that one or more of the Licensed Patents or any claim therein should finally be declared invalid.”*
- Example 2:
 - *Unless terminated earlier pursuant to the terms of this License Agreement, this License Agreement shall continue until the date upon which all Patents in the Licensed Products have expired, lapsed or been declared invalid by a Competent Authority and all the Know-How has become publicly known other than as a result of any action of Licensor or Licensee, and so long as such date is a minimum of fifteen (15) years from the Effective Date. A Patent shall not be deemed to have expired until the expiration of the last Valid Claim.*
 - *“Valid Claim” means a claim of a granted unexpired Patent that has not been held to be invalid by a final judgment of a Competent Authority which cannot be appealed.*



No-challenge

Termination of licenses

Netherlands: no-challenge clauses (1)

- No-challenge clauses prohibit the licensee from challenging the validity of the licenced patent
- No-challenge clauses are controversial as they may restrict competition (Art. 101(1) TFEU)
- It is not relevant whether the no-challenge clause is part of a settlement agreement or a license agreement
- Bayer v. Süllhöfer (C-65/86): guidance by the CJEU about the legality of no-challenge clauses:
 - Legal and economic context decisive (i.e. very fact specific)
 - The CJEU enumerated two circumstances in which no-challenge clauses would be permissible:
 - (1) when the license that contains a no-challenge clause is free (i.e. the licensee does not suffer from the competitive disadvantage of royalty payment)
 - (2) when the licence relates to a technically outdated process which the licensee undertaking did not use
- Huawei v. ZTE (C-170/13): some further guidance by the CJEU:
 - Case related to license negotiations covering Standard Essential Patents (i.e. patents essential to implement a technical standard)
 - An alleged infringer cannot be criticised for challenging the validity of patents or for reserving the right to do so in the future

Termination of licenses

Netherlands: no-challenge clauses (2)

- Regulation (EU) No 316/2014 of 21 March 2014 on the application of Article 101(3) TFEU to categories of technology transfer agreement:
 - The Technology Transfer Block Exemption (TTBER) provides a safe harbour from antitrust challenge for certain types of license agreements
 - Invalid patents are considered an obstacle and negatively influence the balance of value between the contractual parties, limiting innovation and economic activity
 - Clauses which entitle the licensor to terminate the license if the licensee contests the validity of the licensed patent are not protected
 - Distinction between exclusive and non-exclusive license agreements
 - Rationale exemption for exclusive license agreements: exclusive licensee generally benefits from an invalid patent as much as from a valid one and consequently does not benefit from challenging it

Termination of licenses

Scenarios

- Question: are no-challenge clauses allowed in the following scenarios?
- Scenario 1:
 - An exclusive royalty-based license agreement.
- Scenario 2:
 - A non-exclusive royalty-free cross-license agreement.
- Scenario 3:
 - A settlement agreement in relation to a pending national revocation action in which licensor grants a non-exclusive license upon payment of a lumpsum.

Termination of licenses

Example clauses: no-challenge

- Example 1:
 - Licensee shall not challenge or cause any third party to challenge the validity or enforceability of the Patents.
 - Save that Licensee may challenge the validity of the Patents by way of a defence or counterclaim to an action or proceeding commenced by Licensor against Licensee or any of its customers alleging infringement of the Patents.
- Example 2:
 - Licensor shall have the right to terminate this License Agreement or any License hereunder, in the event Licensee directly or indirectly commences legal action or otherwise challenges the validity of the Patents.



Precontractual

Termination of licenses

Precontractual disclosure

- Precontractual disclosure: duty to inform and investigate
 - Aimed at protection of justifiable interests of the parties
 - Violation of duty to inform may lead to a claim for damages
 - Not only in the event of error or fraud
 - Also when a party acted contrary to the principle of good faith (NJ 1995/84)
 - In principle: duty to inform prevails over duty to investigate (NJ 1991/251)
 - When does the duty to inform/investigate arise?

Termination of licenses

Nullification for fundamental mistake

- A license agreement entered into under the influence of an error may be nullifiable
 - If the license agreement would not have been entered into had there been a correct assessment of the facts
- The mistake may result from (Article 6:228 DCC):
 - Misrepresentation: the error is attributable to information provided by the other party
 - Failure to inform: the error is attributable to a failure by the other party to disclose information which, in view of what he knew or ought to have known regarding the error, should have been disclosed
 - Mutual mistake: both parties relied on the same incorrect assumption when entering the agreement
- A nullification on the ground of a fundamental mistake cannot be based on a mistake which is exclusively related to future circumstances.

Termination of licenses

Scenarios

- Is there cause to terminate and/or claim damages in the following scenarios?
- Scenario 1:
 - Patent invalidated; licensor was aware that patent was not examined but granted as a matter of course.
- Scenario 2:
 - Patent invalidated; licensor was aware of potentially novelty destroying documents.

Termination of licenses

Example clauses

- Example 1:
 - *“Licensor and Licensee expressly exclude termination or voidness of this License Agreement on account of error”*



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