

Patent and trade mark licence agreement under French Law

Legal background

French patent and trade mark licence agreements are governed by certain regulations and applicable case law as well as by general contractual provisions set forth in the relevant codes.¹ It is worth noting that there is no transfer of title of the relevant patent or a trade mark from licensor to the licensee under a licence agreement.

French case law holds that licence agreement are constructive lease agreements, so are governed by articles 1713 *et seq.* of the French Civil Code, which are applicable to lease agreements. Accordingly, a patent or a trade mark holder will grant to a third party the right to operate such patent or trade mark in whole or in part in return for the payment of royalties.

However, if a licence is granted for no consideration, the licence is considered to be a specific kind of loan. Here, the licence agreement will be governed by Articles 1874 *et seq.* of the French Civil Code, which are applicable to these loans.

The French Intellectual Property Code contains certain other provisions specific to licence agreements.

1. Entering into a licence agreement

1.1. Form and registration

Patent licence agreement: A written contract is required in order for a patent licensing agreement to be valid and binding (French Intellectual Property Code, Art. L. 613-8). An unwritten agreement is null and void, and it may not be enforced by the parties. However, only the parties to the agreement may sue to rescind the agreement. The agreement should also be registered with the French National Registry of Patents (*Registre National des Brevets*) in order to be enforceable as against third parties (French Intellectual Property Code, Art. L. 613-9 and R. 613-53 *et seq.*).

Trademark licence agreement: Contrary patents, the law does not require a trade mark licence agreement be in writing to be valid and binding. However, in order to be enforceable against third parties, a trade mark licence agreement must be registered with the French National Registry of Trademarks ("*Registre National des Marques*") (French Intellectual Property Code, Art. L. 714-7 and R. 714-2). This means, in practice, that for probatory purposes, trade mark licence agreements are set forth in writing.

1.2. Tax registration

Both patent and trade mark licence agreement: Such agreements must be registered with the competent tax body, and a fixed fee (French General Tax Code, Article 738²) must be paid,

¹ French law sets forth a certain number of mandatory licensing agreements concerning patents that are not described herein.

² €125 in 2008.

within one month of their execution. These rules may not apply if the patent or licence is not used.

1.3. Mandatory recording of licence agreements

Any licence agreement with a non-French resident, whether an individual or an entity, must be recorded with the French National Institute of Intellectual Property (*Institut national de la propriété intellectuelle, or INPI*) within one month following its execution (French Intellectual Property Code, Art. R. 624-1 *et seq.*). Although recordation of License agreements is mandatory, surprisingly French law is silent as to the sanctions that could apply in the event of a failure to record.

2. Content of a licence agreement

2.1. Scope of a licence agreement

Rights relating to a patent/request for patent or to a trade mark may be granted in whole or in part under a licence agreement (French Intellectual Property Code, Art. L. 613-8 for patent licence agreement, Art. L. 714-1 for trade mark licence agreement).

A licence agreement generally defines its scope (rights granted, territory, *etc.*). Except as otherwise set forth in the licence agreement, judges have consistently deemed that the licensee benefit from all the rights attached to the patent/trade mark (other than title) within the territory for which the patent or the trade mark is granted. However, if one of the parties contests the rights of the other party under the licence agreement, that party should sue.

The invalidation of a patent or of a trade mark, for any reason, will also result in rescission of the corresponding licence agreement.

2.2. Term

The parties may agree on a fixed or indefinite term for the licence. If the term is fixed, the licence agreement will expire at the end of the term, unless expressly or impliedly extended. French Competition law prohibits clauses under which royalties are due after the expiration of the licence agreement. If the term is indefinite, either party may terminate the licence agreement, provided that the other party receives reasonable notice. The issue of what constitutes reasonable notice is a question of fact usually reserved to the courts. Factors considered include industry practice and the duration and substance of the relationship between the parties.

The term of a licence agreement may be shorter than the validity of a patent or a licence, however it may not be longer. The expiration of a patent or of a trade mark will also result in the corresponding licence agreement's rescission.

2.3. Exclusivity

The parties may agree on whether the licence agreement provides for exclusivity. Exclusivity occurs when the licensor expressly restrains itself from granting to others, within the same territory, another licence agreement for the same patents or trade marks. In any other case, the licence agreement is non-exclusive.

In case of exclusive licence agreement, an issue is whether the licensor will retain the right to exploit the patent or the trade mark for its own use. The *Cour de cassation* ruled that, unless otherwise provided in a trade mark licence agreement, the licensor cannot use the licence.³ This decision, which has not been approved by French doctrine⁴, may also be applicable to patent licence agreement.

2.4. Compensation

In order for a licence agreement to be considered valid, any price payable under the agreement should be defined, as required by the French Civil law rules. Subject to such rules, the parties may freely determine the terms and conditions that govern payment by the licensee (*e. g.*, fixed and definite compensation or royalties proportional to the level of exploitation, *etc.*). Usually, the licence agreement will provide for an initial payment of a lump sum, to which royalties proportional to the exploitation will be added. The parties may define the method to calculate the royalties. Such method should be chosen with care in order to avoid ambiguity (for instance, "*sales excluding tax*" will be preferred to "*profit*").

The licence may also be granted for no consideration and will then may be deemed, in rare circumstances, to be a loan, such as an inter-company loan.

3. Effects of the licence agreement

The rights and obligations of the parties mainly derive from the licence agreement's terms. However, where the licence agreement is silent, French case law fills in the gaps.

3.1. Licensor's primary duties

3.1.1. Obligation to maintain the licenced rights

The licensor should maintain the validity of the patent or trade mark. This involves timely paying all the relevant fees and completing all the required formalities.

3.1.2. Covenant of quiet enjoyment

The licensor must abstain from any behaviour, factual or legal, that would violate the licensee's quiet enjoyment of the rights granted under the licence agreement (French Civil Code, Article 1719). This covenant is a mandatory requirement (*obligation d'ordre public*) and clauses to the contrary in a licence agreement are null and void.

3.1.3. Warranty against third parties

This is a warranty given by the licensor to the licensee that third parties will not prevent the licensee from benefiting from the licence agreement.

This warranty is not a mandatory requirement (*obligation d'ordre public*), so the parties to a licence agreement may exclude it, or limit or extend its scope. However, any clause

³ *Cour de cassation*, Commercial Chamber, 10 January 1995, Bull. civ. IV No. 12, No. 92-18923.

⁴ Doctrine is highly persuasive, though not binding, authority written by legal scholars.

restraining or excluding the licensor's warranty as against third parties will not be valid if the licensor is acting in bad faith. Moreover, French courts have held in certain cases that a clause excluding the warranty as against third parties may be valid only if the licence agreement is entered into between professionals belonging to the same industry.⁵

In the absence of a specific clause in the licence agreement, the licensor must warranty the licensee against third party disturbance of its rights implied by law into the agreement, but not in relation to its other rights (French Civil Code, Art. 1725). However, certain rules applicable to infringement require the licensor to make warranties the licensee even in the event of a third party disturbance of contractual or other rights not implied by law. Indeed, the licensor is the main, and sometimes, sole, person who is entitled to sue for the infringement of a patent or trade mark (French Intellectual Property Code, Art. L. 615-2 for patent licence agreement, Art. L. 716-5 for trade mark licence agreement).

If the licensee's use of its rights under the licence agreement is disturbed by a third party contesting its right to exploit the agreement, the licensee will be entitled to file a suit, following the facts of the case, against the licensor.

3.1.4. Warranty against latent defects

The licensor warrants that the patent or the trade mark can be operated in respect of latent defects (French Civil Code, Art. 1721⁶). Thus, the patent licensor must warrant the licensee against all defects regarding the invention and defects resulting from the bad conception (*e.g.*, risks of explosion, or technical impossibility to operate the invention, *etc.*). However, pursuant to French case law, the licensor does warrant neither the commercial value nor the commercial success of the invention unless otherwise is expressly provided. According to this warranty, the licensor must indemnify the licensee for all damages suffered.

The parties are free to exclude, limit or extend the warranty against latent defects.

If the licence agreement is silent with respect to this warranty, the law will imply it. Thus, in connection with the patent licence agreement, the licensor must warrantee the both the technical and commercial use of the licence (*e.g.*, if the invention can only be manufactured in a laboratory, with the exception of line-production, or if the manufacturing price prohibits the access to the market, the invention will be considered as non-exploitable).⁷

Clauses that limit the warranty against latent defects are valid, provided that the licensor who intends to rely on such clause has acted in good faith. Thus, a licensor who was aware of the relevant defects cannot successfully limit this warranty.

The clause excluding the warranty against latent defects, when enforced, will prevent the licensee from exercising any right to indemnification that it may have. However, the effect of such a clause will be limited if the defect affects the validity of the licenced patent or trade mark (*e.g.*, in the event a patent is cancelled, the relevant patent licence agreement will be

⁵ Court of Appeal of Colmar, April 18, 1984 *in* JCl., Brevets, Contrats d'exploitations, Fasc. 658, p. 71.

⁶ *Cf.*: "A warranty is runs to the lessee for all vices or defects of the thing leased which prevent use of it, although the lessor did not know of them at the time of the lease. Where any loss results to the lessee from those vices or defects, the lessor is obliged to indemnify him".

⁷ Court of Appeal of Paris, June 2, 1988 *in* D. 1988, inf. rap. p. 202 ; PIBD 1988, n° 445, III, p. 544.

declared to be null and void because it will have lost its purpose, which is a material part of any agreement⁸).

3.1.5. Transfer of know-how

Patent licence agreement: The issue here is whether the licensor, when delivering the patent, must deliver the technical know-how at the same time. In this respect, it is necessary to refer to the agreement's terms that can either exclude or provide for such a delivery of technical know-how on the part of the licensor. In this case, the parties will usually define the technical know-how and will plan the terms and conditions of delivery.

The issue is unclear where the licence agreement is silent on the delivery of technical know-how. A lower court ruled that in the absence of a clause relating to the delivery of technical know-how in the agreement, the licensor did not have the obligation to provide the licensee with technical assistance.⁹

Trademark licence agreement: A transfer of technical know-how is not implied by the nature of trade mark licence agreement, unless the scope of the agreement is intended to include the transfer of technical know-how.

3.2. Main licensee's duties

3.2.1. Duty to exploit

The licensee must exploit the patent or the trade mark in a serious and genuine manner. This obligation for the licensee is a material term of the agreement and does not need to be express to be valid. This obligation is stronger under trade mark licence agreements than under patent licence agreements, in order to avoid the forfeiture of the trade mark by the licensor. Indeed, pursuant to Article L. 714-5 of the French Intellectual Property Code applicable to trade marks, "*an owner who has not put his mark to genuine use in connection with the goods or services referred to in the registration during an uninterrupted period of five years, without good reason, shall be liable to revocation of his rights.*"

The lack of exploitation will lead to the early termination of the agreement and to the payment of damages to the licensor, unless such lack of exploitation is due to insurmountable difficulties.¹⁰

However, the duty to exploit is not considered a duty of public policy, and the right not to exploit, under certain conditions, may be expressly granted to the licensee.

To encourage the licensee to exploit the patent or the trade mark, licence agreement often contain a clause providing for the payment of a minimum amount of royalties. If this clause is provided for in the agreement, the licensee who does not meet its obligations will incur the early termination of the licence agreement, or, if applicable, the loss of exclusivity. If nothing is provided for in the agreement with respect to minimum royalties, and if the results of

⁸ Court of Appeal of Paris, December 17, 1982 in D. 1984, I.R., p. 212.

⁹ TGI of Paris, 20 March 1976 cited in Burst J.-J., L'assistance technique dans les contrats de transfert technologique. D. 1979, chr., p. 1).

¹⁰ Court of Appeal of Paris, January 31, 1991: PIBD 500/1991, III, p.302 cited in JCl. Brevets, Contrats d'exploitations, Fasc. 658, p. 76.

exploitation are not sufficient, the licensor may either opt to enforce the licence agreement or, with more success, for its early termination.

3.2.2. Obligation of personal exploitation

The licensee must personally exploit the rights granted under the licence agreement and it cannot, unless otherwise provided in the agreement, grant a sub-licence without the express consent of the licensor. However, a lower court previously stated that a licensee may, even in the absence of a specific clause and in the absence of the licensor's express consent, freely grant a sub-licensing agreement to a sub-licensee who would exploit the invention exclusively for the licensee's account.¹¹

3.2.3. Obligation to pay the royalties

The licensee must pay the royalties as provided in the licence agreement. License agreement usually provide for a clause allowing the licensor to control the licensee's level of exploitation. The licensee will incur contractual liability in case of default of the royalties' payment. Moreover, the non-payment of royalties can lead to the early termination of the licence agreement. However, the lack of payment does not mean that the licensee infringes the relevant trade mark or patent, provided that it acts within the scope of the licence agreement.

3.2.4. Non-compete clause

Non-compete clauses are valid, provided that the general provisions of law are complied with. However, in the absence of such a clause, major French doctrine considers that the licensee is not implicitly liable for any non-compete obligation towards the licensor.

4. Expiration of a licence agreement

4.1. Expiration - renewal

Please see Article 2.2 above.

4.2. Early termination

The licence agreement may be early terminated, if among other things, the agreement is not valid (*e. g.*, in case of rejection of a patent request), or a party fails to meet its obligations.

If a party fails to meet its obligations under the licence agreement, the other party must sue to terminate the agreement and obtain a favourable judgment, unless the licence agreement specifically authorizes automatic early termination.

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¹¹ Court of Appeal of Paris, January 27, 1866 : Ann. Propr. Ind. 1869, p. 289 cited *in* JCl. Brevets, Contrats d'exploitations, Fasc. 658, p. 82.