

**CAN EXCLUSIVE LICENSEES SUE FOR INFRINGEMENT  
OF LICENSED IP RIGHTS?: A CASE STUDY CONFIRMING  
THE NEED TO CREATE GLOBAL IP LICENSING RULES**

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I. INTRODUCTION

It is no secret that global intellectual property (“IP”) licensing transactions are pervasive in today’s interconnected business environment.<sup>1</sup> These transactions represent perhaps the most evanescent form of all international business transactions given that they fre-

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1. This Article will focus on business to business licensing transactions and will leave aside business to consumer transactions.

quently do not materialize in any tangible manner.<sup>2</sup> This may create the impression that such transactions evolve in a global legal environment that is uniform and totally independent from any geographic constraints and local regulations. This is, however, not the case as local laws significantly affect IP licensing transactions. Local laws greatly affect how licensed IP rights can be enforced against third-party infringers, which is of key interest to the parties, particularly to an exclusive licensee who will legitimately expect to enjoy a monopoly-like ability to use the licensed IP right within the scope of the exclusive use covered by the license agreement. This Article will focus on the right of exclusive licensees to sue third-party infringers<sup>3</sup> and will use this question as a case study to confirm the need for a global framework governing IP licensing transactions.<sup>4</sup> The issue of the exclusive licensee's right to sue can be illustrated by the following scenario:<sup>5</sup> a U.S. company, the licensor ("USLOR") enters into a worldwide exclusive trademark license agreement governed by Swiss law with a Japanese company, the exclusive licensee ("JLEE").<sup>6</sup> JLEE is facing large scale infringing activities, which are committed by various third parties in several countries, and the license agreement does not specify whether, and under what conditions, JLEE has the right to sue for the infringement of the licensed trademarks.<sup>7</sup> The question, therefore, is whether JLEE has the right to sue third parties who infringe on the licensed trademark in different countries. To date, there is surprisingly no single answer to this question. JLEE may have the right to sue infringers in certain countries but not in others as a result of the application of local laws and of potentially conflicting decisions delivered by different local courts (which will have to decide whether an exclusive licensee shall have the right to sue infring-

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2. An IP license does not require any physical interaction between the contracting parties; it only requires that the licensor grant a right to use the licensed IP to the licensee.

3. This Article will not discuss the issue of the right of the exclusive licensee to file suit for infringement against the licensor or IP owner (rather than against a third-party infringer) which is an entirely different issue and is, accordingly, also addressed separately under certain laws. See, e.g., Trade Marks Act 1994, c. 26, § 31 (UK); see also Laura Anderson, *UK Perspectives on Trademark Transactions: A Liberal Approach*, in *THE LAW AND PRACTICE OF TRADEMARK TRANSACTIONS: A GLOBAL AND LOCAL OUTLOOK* 358, 379 (Irene Calboli & Jacques de Werra eds., 2016).

4. See generally Jacques de Werra, *Moving Beyond the Conflict between Freedom of Contract and Copyright Policies: In Search of a New Global Policy for On-Line Information Licensing Transactions*, 25 *COLUM. J.L. & ARTS* 239 (2003).

5. We could also take other examples of IP licensing transactions (such as a patent license or a copyright license) as the issue is essentially identical, irrespective of the type of licensed IP right.

6. See, e.g., Sonia Baldia, *The Transaction Cost Problem in International Intellectual Property Exchange and Innovation Markets*, 34 *NW. J. INT'L L. & BUS.* 1, 36-41 (2013) (discussing other hypotheses that show the tensions that can arise between uniform global contractual regimes and fragmented local IP regimes).

7. Even if the license agreement contains a provision on this issue, this still does not mean that such provision will be enforceable before national courts. See *infra* Section II.A.

ers). Even if one would expect local laws and decisions to present a high degree of harmonization given that the issue at stake originates from a single legal document, this is regrettably not the case, as will be shown in Part II.

The application of potentially conflicting local rules can lead to an undesired fragmentation, which sharply conflicts with the inherently global nature of international IP licensing transactions as well as with the contracting parties' legitimate expectations.<sup>8</sup> This Article will demonstrate the need to prevent such fragmentation and to create a globally unified framework governing the right of exclusive licensees to sue. First, the parties to an international exclusive IP license agreement should be free to decide whether, and under what conditions, the exclusive licensee has the right to initiate infringement proceedings against third parties based on the general principle of party autonomy. Second, in the absence of a contractual solution, global default rules defining the conditions under which an exclusive licensee is entitled to sue for IP infringement should apply.

## II. THE ABSENCE OF A GLOBAL UNIFORM SOLUTION

Several reasons can explain why there is no single global answer to the question of whether an exclusive licensee has the right to sue for infringement of licensed IP rights. The first and most obvious one is that this issue is not addressed, and therefore not harmonized, in any global IP convention. As a result, local regulators and local courts have used various methods to deal with this issue, which has led to different outcomes.<sup>9</sup> However, in spite of such local divergences, courts<sup>10</sup> and regulators generally tend to find that an exclusive licensee has the right to sue under certain conditions.<sup>11</sup>

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8. See Baldia, *supra* note 6, at 32; see also Michael Anthony C. Dizon, *The Symbiotic Relationship Between Global Contracts and the International IP Regime*, 4 J. INTELL. PROP. L. & PRAC. 559, 559–65 (2009).

9. See AIPPI, SUMMARY REPORT: QUESTION Q190: CONTRACTS REGARDING INTELLECTUAL PROPERTY RIGHTS (ASSIGNMENTS & LICENSES) AND THIRD PARTIES 2 (2006) [hereinafter SUMMARY REPORT OF AIPPI, <https://aippi.org/download/committees/190/SR190English.pdf> [<https://perma.cc/W22V-2SAA>]; see also Study Committee, *Contracts regarding Intellectual Property Rights (assignments and licenses) and third parties*, AIPPI, <http://aippi.org/committee/contracts-regarding-intellectual-property-rights-assignments-and-licenses-and-third-parties-2/> [<https://perma.cc/M3PP-7RVP>].

10. See, e.g., *Propat Int'l Corp. v. Rpost, Inc.*, 473 F.3d 1187, 1193 (Fed. Cir. 2007) (citing *Intellectual Prop. Dev., Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1345–46 (Fed. Cir. 2001)) (finding that “[a] party that is neither the legal owner of the patent nor the transferee of all substantial rights in the patent still has standing to sue . . . if that party has a legally protected interest in the patent . . . .”); see also *id.* (“An exclusive licensee is considered to have such an interest.”).

11. See Summary Report of AIPPI, *supra* note 9, at 2 (“A large majority of countries reported that exclusive licensees have a right to bring proceedings for infringement.”). This general concurrence between local approaches is the reason this Article focuses only on the

The lack of harmonization between local approaches and the resulting fragmentation has different causes and manifests itself in different ways. First, as Section II.A explains, fragmentation results from the widely diverging methods used by national courts to decide whether a license is sufficiently exclusive to grant the licensee the right to sue for infringement. Section II.B outlines how further fragmentation results from the application of traditional conflict of law principles under which the legal impact of a license agreement on third parties must be determined on a country-by-country basis. Though this may appear surprising in view of the high level of harmonization of IP law within the European Union, fragmentation still exists within the European Union, as is demonstrated in Section II.C.

*A. When Is a License Sufficiently Exclusive to Grant the Licensee the Right to Sue?*

To decide whether an exclusive licensee has the right to sue for the infringement of a licensed IP right, courts often first interpret the intent of the parties to the exclusive license agreement in order to determine whether or not the license at issue is in fact an exclusive license.<sup>12</sup>

The diversity of local solutions regarding the concept of exclusivity stems from the fact that it is a concept that is not uniformly defined at the global level. There is indeed no definition of what constitutes an exclusive license in binding international IP instruments.<sup>13</sup> The WIPO Joint Recommendation Concerning Trademark Licenses<sup>14</sup> is, however, a relevant (albeit nonbinding) international source applicable to

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right of exclusive licensees to sue and does not discuss the status of non-exclusive licensees. However, the very concept of what constitutes an exclusive license is not uniform. See discussion in *infra* Section II.A.

12. See, e.g., *Textile Prods., Inc. v. Mead Corp.*, 134 F.3d 1481, 1484 (Fed. Cir. 1998) (“Determining whether a licensee is an exclusive licensee or a bare licensee is a question of ascertaining the intent of the parties . . . as manifested by . . . their agreement and examining . . . the grant. The use of the word ‘exclusive’ is not controlling; what matters is the substance of the arrangement.” (internal citations omitted)); see also Kim J. Landsman et al., *Standing and Joinder Considerations in Trademark Litigation and Licenses*, 99 L.J. INT’L TRADEMARK ASS’N 1437, 1440 (2009) (providing an analysis under U.S. trademark law).

13. See, e.g., The TRIPS Agreement on Trade-Related Aspects of Intellectual Property Rights art. 28, para. 2, Apr. 15, 1994, 1869 U.N.T.S. 299, 33 I.L.M. 1197 [hereinafter TRIPS Agreement] (“Patent owners shall also have the right to assign, or transfer by succession, the patent and to conclude licensing contracts.”). This provision does not enumerate and distinguish between the various types of “licensing contracts.”

14. See generally World Intellectual Prop. Org. [WIPO], *Joint Recommendation Concerning Trademark Licenses*, (Sept. 25 to Oct. 3, 2000) [hereinafter WIPO Assembly Recommendation].

trademark licenses.<sup>15</sup> This recommendation provides certain definitions and distinguishes between three types of licenses:<sup>16</sup> (1) The “exclusive license,” which “is only granted to one licensee, and excludes the holder from using the mark and from granting licenses to any other person;”<sup>17</sup> (2) The “sole license,” which “is only granted to one licensee and excludes the holder from granting licenses to any other person, but does not exclude the holder from using the mark;”<sup>18</sup> and (3) The “non-exclusive license,” which “does not exclude the holder from using the mark or from granting licenses to any other person.”<sup>19</sup>

The lack of a uniform definition of an exclusive license means that each local court in each of the countries in which infringement actions are initiated will have to interpret the nature of the license agreement by reference to the law governing the agreement. In the scenario described in Part I above, this means that different national courts will have to interpret the nature of a license granted under one license agreement governed by Swiss law in order to assess whether or not the license can be deemed exclusive and thereby justify the right of the licensee to sue third-party infringers.<sup>20</sup> This task is a tedious one. Indeed, it can be highly challenging for local courts to interpret foreign contracts, particularly because contract interpretation methods can differ significantly from one system to another — especially between common law and civil law systems.<sup>21</sup> This also raises the general question of how local courts should ascertain the content of foreign law. It seems reasonable to require local courts to pay due consideration to the specificities of foreign law<sup>22</sup> and, consequently, to avoid minimizing any differences with their more familiar local laws.

Local courts analyzing foreign law to determine whether a license agreement is exclusive or not face additional practical obstacles. The

15. Even if the WIPO Assembly Recommendation focuses on trademark licenses, there is no compelling reason to consider that the definitions that it contains cannot apply to other categories of IP rights.

16. Under the WIPO Assembly Recommendation, a “license” is defined as “a license for the use of a mark under the applicable law of a Member State.” See WIPO Assembly Recommendation, *supra* note 14, art. 1, cl. vii.

17. *Id.* at art. 1, cl. ix.

18. *Id.* at art. 1, cl. x.

19. *Id.* at art. 1, cl. xi.

20. For an illustration of the complex issues that can arise in such context, see, e.g., Bundesgericht [BGer] [Federal Supreme Court] May 5, 1987, 113 Entscheidungen des schweizerischen Bundesgerichts [BGE] II 190, para. 1 (Switz.) (applying Swiss copyright law despite the fact that the agreement was governed by French law).

21. See James Spigelman, *Contractual Interpretation: A Comparative Perspective*, 85 *AUSTL. L.J.* 412, 453–54 (2011), <http://ssrn.com/abstract=1809331> [<https://perma.cc/E96C-8KH6>].

22. See Karen Knop et al., *From Multiculturalism to Technique Feminism, Culture, and the Conflict of Laws Style*, 64 *STAN. L. REV.* 589, 630 fn.169 (2012) (discussing *Bodum USA, Inc. v. La Cafetière, Inc.*, 621 F.3d 624 (7th Cir. 2010)). For more background on this case, see generally Philip D. Stacey, *Rule 44.1, Bodum USA v. La Cafetière, and the Challenge of Determining Foreign Law*, 6 *SEVENTH CIR. REV.* 472 (2011).

courts will have to interpret the meaning and the nature of the license agreement that was entered into between the licensor and the licensee without necessarily being able to hear the position of the licensor on the issue. This is because the licensor, who is frequently the IP owner,<sup>23</sup> is generally not a party to the legal proceedings in which the exclusive licensee's right to sue is disputed.<sup>24</sup> In many cases, these proceedings will be initiated by the exclusive licensee against a third-party infringer, without the participation or involvement of the licensor.<sup>25</sup> The interpretation of the nature of the license agreement may constitute a rather complex and uncertain undertaking in the absence of any information from one of the contracting parties. This holds true particularly from a civil law perspective where the primary method of contract interpretation is to look at the subjective intent of the parties, which in our case would include the licensor and not at the wording of the contract.<sup>26</sup>

Even if the parties to the international license agreement have chosen the applicable law in the case of a dispute, such choice is not yet sufficient to ensure that local courts will not have recourse to local IP concepts to assess the legal nature of the license granted under the relevant license agreement. This is illustrated by the U.S. case *Sunstar, Inc. v. Alberto-Culver Co.*,<sup>27</sup> in which the Seventh Circuit Court of Appeals had to interpret the meaning of the term “Senyō - shiyō - ken,” a concept under Japanese trademark law, in order to define the scope of the license granted by a U.S. licensor (Alberto Culver) to a Japanese licensee (Sunstar) and to assess whether Sunstar was authorized to use variants of the licensed trademark under the license agreement. What is interesting in this case is that the parties had agreed that Illinois law would apply.<sup>28</sup> However, Judge Posner held that “we cannot look to Illinois law to define *senyoshiyoken*, a term the meaning of which is given by Japanese law. Illinois law will not tell us whether the holder of a *senyoshiyoken* can use variants of its licensed trademarks.”<sup>29</sup> The court thus decided to apply Japanese law to determine whether or not the holder of a *senyoshiyoken* was permitted to use variants of licensed trademarks given that this was a technical legal term, which had no meaning under the elected law.<sup>30</sup>

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23. This is, however, not always the case given that the issue can also arise in connection with a sublicense agreement.

24. This statement is subject to national rules which would impose that the licensor be a party to the proceedings. *See, e.g.* Trade Marks Act 1994, c. 26, §§ 30–31 (UK).

25. Even if the licensor may have to or may decide to join in the course of the proceedings, the licensor must not be a necessary party under certain conditions.

26. *See* Spigelman, *supra* note 21, at 453.

27. 586 F.3d 487 (7th Cir. 2009).

28. *Id.* at 494 (“Disputes arising under [the agreement] are to be resolved in accordance with the law of Illinois.”).

29. *Id.*

30. *Id.* at 495.

An additional issue relates to the risk that local courts of the relevant countries might interpret the nature of the license differently and, as a result, deliver conflicting decisions on the same issue. Such decisions could further conflict with the interpretation of the license agreement that could be made by the court or the arbitral tribunal that has jurisdiction to decide on the disputes arising between the licensor and the licensee.<sup>31</sup> In short, the submission of the same legal issue to different courts in different countries is likely to lead to conflicting decisions, which is problematic and at a minimum inefficient.

A review of case law shows that local courts take very different factors into account when they assess whether a license is exclusive and whether an exclusive licensee has the right to sue. Under certain legal systems, courts can admit exclusivity despite the fact that the IP owner retains certain rights.<sup>32</sup> Similarly, certain courts have deemed a patent license to be exclusive even though other licenses had previously been granted to third parties, i.e. before the license agreement at issue was executed.<sup>33</sup> Other courts, however, have rejected such a conclusion.<sup>34</sup> For certain courts, a short contractual term of an exclusive license constitutes a reason to refuse the licensee a right to sue,<sup>35</sup> while other courts consider this factor to be irrelevant.<sup>36</sup> This could mean that, based on the same license agreement, which would provide for a relatively short term, the licensee could be permitted to sue in one country but be refused standing to sue in another country. The question whether a licensee can grant sublicenses can also be relevant

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31. A contractual dispute can arise between the licensor and its exclusive licensee as to whether the latter shall have the right to sue third-party infringers irrespective of the countries in which the exclusive licensee may consider filing an action for infringement in the future.

32. Under such systems, a license can thus be deemed exclusive even if it may appear more like a sole license than an exclusive one, *see supra* notes 16–18. *See, e.g.*, *Abbott Labs., v. Diamedix Corp.*, 47 F.3d 1128, 1131 (Fed. Cir. 1995) (holding that the license at issue was exclusive even though the patentee “retained a limited right to make, use, and sell products embodying the patented inventions”).

33. *See Intellectual Prop. Dev.*, 248 F.3d at 1336 (holding that the license at issue was exclusive even if “subject to a [preexisting] nonexclusive license”).

34. *See, e.g.*, OLGZ September 24, 2015, Az. I-2 U 30/15 (Ger.) [hereinafter *Düsseldorf OLGZ*], [https://www.justiz.nrw.de/nrwe/olgs/duesseldorf/j2015/I\\_2\\_U\\_30\\_15\\_Urteil\\_20150924.html](https://www.justiz.nrw.de/nrwe/olgs/duesseldorf/j2015/I_2_U_30_15_Urteil_20150924.html) [<https://perma.cc/6BS3-M55P>]; *see also* Thomas Musmann, *Exclusive Licensees, watch out!*, KLUWER PATENT BLOG (Nov. 25, 2015) <http://kluwerpatentblog.com/2015/11/25/exclusive-licensees-watch-out/> [<https://perma.cc/78RM-QTVK>] (discussing the aforementioned case).

35. *See, e.g.*, *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1136, 1342 (Fed. Cir. 2006) (“The [patent] was never assigned; it was exclusively licensed for only a fixed period of years, which does not meet the all substantial rights standard.”).

36. *See, e.g.*, Reichsgericht [RGZ] [Supreme Court of the German Reich], GRUR 1934, 306 (Ger.) (citing *Düsseldorf OLGZ, supra* note 34).

for the courts' determinations as to whether or not a licensee has the right to sue third-party infringers.<sup>37</sup>

The recent Australian case *Bristol-Myers Squibb v. Apotex*<sup>38</sup> deals with the interpretation of Sec. 120(1) of the Australian Patents Act,<sup>39</sup> which provides that, "Subject to subsection (1A), infringement proceedings may be started in a prescribed court, or in another court having jurisdiction to hear and determine the matter, by the patentee or an exclusive licensee,"<sup>40</sup> whereby "exclusive licensee" is defined as "a licensee under a license granted by the patentee and conferring on the licensee, or on the licensee and persons authorised by the licensee, the right to exploit the patented invention throughout the patent area to the exclusion of the patentee and all other persons."<sup>41</sup> In this case, the Federal Court of Australia held en banc that the license agreement was not exclusive on grounds that the patentee retained certain rights under the patent, i.e. the license was not "to the exclusion of the patentee".<sup>42</sup> This decision illustrates the distinction between an exclusive license and a sole license, as also reflected in the WIPO Assembly Recommendation<sup>43</sup> but not necessarily in the case law of other countries.

These cases shed light on some of the complexities of the issues at stake and evidence the high enforcement costs of licensed IP rights by an exclusive licensee against third-party infringers. They also show that courts do not solely rely on the interpretation of the parties' intent, but also examine whether the exclusive licensee has a sufficient degree of "substantial rights"<sup>44</sup> or exclusivity (property-based interests) to be entitled to sue third-party infringers. Stated otherwise, courts sometimes analyze not only the *contractual* interpretation of the nature of the license but also assess the existence of the licensee's *property*-based interests in the licensed IP right.

### *B. Conflict of Law Rules Create Fragmentation*

The fragmented approach following which each national law independently defines whether an exclusive licensee has the right to sue third-party infringers also flows from classic conflict of law princi-

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37. See, e.g., *Alfred E. Mann Found. for Sci. Research v. Cochlear Corp.*, 604 F.3d 1354, at 1360–61 (Fed. Cir. 2010) (discussing the licensee's right to grant sublicenses under the license agreement in connection with a potential standing to sue).

38. *Bristol-Myers Squibb Co v Apotex Pty Ltd* [2015] FCAFC 2 (Austl.).

39. *Patents Act 1990* (Cth) s 120(1) (Austl.).

40. *Id.*

41. *Id.* at s 3, para 103.

42. *Bristol-Myers Squibb Co*, [2015] FCAFC 2, at \*105.

43. See *supra* notes 14–19.

44. See generally *Aspex Eyewear, Inc. v. Miracle Optics, Inc.*, 434 F.3d 1136, 1342 (Fed. Cir. 2006).

ples, which mirror a property-based conception of these issues in particular and of IP law in general. It is indeed traditionally acknowledged that the impact of IP licenses on third parties is governed by the *lex loci protectionis*,<sup>45</sup> i.e. the law of the country in which the protection of the IP is sought.<sup>46</sup> This principle creates fragmentation because the issue of whether an exclusive licensee has the right to sue for infringement will have to be determined on the basis of the national IP law of each of the countries under which the exclusive licensee claims protection. This principle typically also applies to the legal status of exclusive licenses as such,<sup>47</sup> because under certain legal systems exclusive licenses are considered to have an *in rem*, or property-based, nature.<sup>48</sup> As a result, a local court tasked with determining whether an exclusive licensee has the right to sue for infringement would have to apply the national IP laws of each of the countries where protection is sought.<sup>49</sup> Additionally, parties could not elect one single national IP law to govern their agreement because all national IP laws of the countries where protection is sought would apply cumulatively.<sup>50</sup>

### C. *The Diversity of Solutions Within the European Union*

In spite of the high level of IP law harmonization within the European Union, there is no uniform standard that applies to all categories of IP rights on the specific issue of whether an exclusive licensee

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45. See Graeme B. Dinwoodie, *Developing a Private International Intellectual Property Law: The Demise of Territoriality?*, 51 WM. & MARY L. REV. 711, 729 (2009), <http://scholarship.law.wm.edu/wmlr/vol51/iss2/12> [<https://perma.cc/JC5J-ZUK5>].

46. See, e.g., EUROPEAN MAX PLANCK GRP., PRINCIPLES ON CONFLICT OF LAWS IN INTELLECTUAL PROPERTY 14, art. 3:301 (2011) (“The transferability of intellectual property rights and the question whether the transfer or license can be invoked against third parties shall be determined by the law of each State for which protection is sought.”).

47. See generally DÜSSELDORF OLGZ (holding that the grant of an exclusive license on a German patent or an exclusive license on the German part of a European patent is governed by German law by application of the *lex loci protectionis*).

48. See Christopher M. Newman, *A License Is Not A “Contract Not to Sue”*: *Disentangling Property and Contract in the Law of Copyright Licenses*, 98 IOWA L. REV. 1101, 1140 (2013) (discussing the *in rem* effect of exclusive licenses under U.S. copyright law).

49. See generally MARC ANDRE MAUERHOFER, DIE RECHTSTELLUNG DES LIZENZNEHMERS IM VERLETZUNGSPROZESS 198 (2010) (considering that a Swiss court in a proceeding about a foreign IP right must decide whether the licensee has the right to sue by application of the relevant foreign IP law).

50. See *id.* at 199–200.

has the right to sue for infringement.<sup>51</sup> The newly adopted EU Trade Marks Directive of December 16, 2015<sup>52</sup> provides that:

Without prejudice to the provisions of the licensing contract, the licensee may bring proceedings for infringement of a trade mark only if its proprietor consents thereto. However, the holder of an exclusive licence may bring such proceedings if the proprietor of the trade mark, after formal notice, does not himself bring infringement proceedings within an appropriate period.<sup>53</sup>

This provision corresponds to the solution that has been adopted in other EU legal instruments governing IP,<sup>54</sup> particularly the EU Community Trade Mark Regulation<sup>55</sup> and the EU Design Regulation<sup>56</sup>. The rules applicable to the Unified Patent Court (“UPC”) offer a different, although essentially similar, solution.<sup>57</sup> The UPC Agreement provides at Art. 47, para. 2 that: “[u]nless the licensing agreement provides otherwise, the holder of an exclusive licence in respect of a patent shall be entitled to bring actions before the Court under the same circumstances as the patent proprietor, provided that the patent proprietor is given prior notice.”<sup>58</sup> This provision consequently requires only that the licensee notify the licensor before bringing an action for infringement before the UPC and does not specify whether the licensor would have the right to object after being notified of the dispute by the exclusive licensee. The provision also institutes a mechanism by which any challenge to the validity of a licensed patent must involve the patent owner.<sup>59</sup>

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51. See European Directive 2004/48/EC, art. 4, 2004 O.J. (L 157). The EU Single Market would more generally require the creation of a uniform IP licensing framework, which has not been achieved yet. See generally Jacques de Werra, *The Need to Harmonize Intellectual Property Licensing Law: A European Perspective*, in RESEARCH HANDBOOK ON INTELLECTUAL PROP. LICENSING 450 (Jacques de Werra ed., 2013) (discussing the need to harmonize IP licensing in Europe, particularly within the European Union).

52. See generally Council Directive 2015/2436, 2015 O.J. (L 336) (EU) [hereinafter Directive (EU) 2015/2436].

53. *Id.* at art. 54, para. 1 (requiring Member States to adopt most of the implementing rules and regulations for the Directive by January 14, 2019).

54. This trend has not yet impacted all sectors of IP within the European Union, particularly the copyright sector.

55. See Council Regulation 207/2009, art. 22, para. 3, 2009 O.J. (L 78) (EU) [hereinafter Council Regulation (EU) 207/2009].

56. See Council Regulation 6/2002, art. 32, para. 3, 2006 O.J. (L 386) (EU) (concerning the international registration of industrial designs).

57. Agreement on a Unified Patent Court, 2013 O.J. (C 175).

58. *Id.* at art. 47, para. 2.

59. *Id.* at art. 47, para. 5.

The diversity of solutions further results from the differences that at times exist between EU law and member states' national laws. An exclusive licensee may have the right to sue under EU law to enforce EU IP rights without the consent of the licensor and IP owner<sup>60</sup> while simultaneously not having the right to sue for infringement of a national IP right. This can be the case in Germany, for instance, where under German trademark law<sup>61</sup> an exclusive trademark licensee has no right to sue without the approval of the trademark owner, even though the exclusive licensee could file a suit pursuant to the EU Community Trade Mark Regulation.<sup>62</sup>

Recent case law confirms that the legal issues in this area are still unclear, as reflected in the recent judgment of the Court of Justice of the European Union ("ECJ") in *Hassan v. Breiding Vertriebsgesellschaft mbH*.<sup>63</sup> The Court held that a trademark licensee's right to sue for an alleged infringement of a community trademark did not depend on the registration of the licensee in the Register of Community Trademarks.<sup>64</sup> This approach was confirmed in *Philipps v. Grüne Welle Vertriebs GmbH*<sup>65</sup> with regard to the corresponding provisions in the EU Design Regulation. Further decisions were rendered in EU countries dealing with related issues.<sup>66</sup> These decisions highlight the broad diversity of local approaches and solutions that exist even within the European Union with regard to the issue of whether and which types of exclusive licensees have the right to sue third parties for the infringement of licensed IP rights.

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60. See Directive (EU) 2015/2436, *supra* note 52, art. 25, para. 3.

61. Under German trademark law, a licensee does not have a right to sue for trademark infringement without the consent of the owner of the trademark. Gesetz über den Schutz von Marken und sonstigen Kennzeichen [MarkenG] [Trade Mark Act], Oct. 25, 1994, BUNDESGESETZBLATT, Teil I [BGBl I] at 3082, as amended, § 30, para. 3 (Ger.).

62. See Council Regulation (EC) 207/2009, *supra* note 55, art. 22, para. 3.

63. Case C-163/15, *Hassan v. Breiding Vertriebsgesellschaft mbH*, 2016 EUR-Lex CELEX 62015CJ0163 (Feb. 4, 2016).

64. *Id.* at 28 ("Article 23(1) of Council Regulation (EC) No 207/2009 . . . must be interpreted as meaning that the licensee may bring proceedings alleging infringement of a Community trade mark which is the subject of the license, although that license has not been entered in the Register of Community trade marks."). Since March 23, 2016, community trade marks are called "EU trade marks" and the Register of Community trade marks has been renamed "Register of EU trade marks." See Council Regulation 2015/2424, art. 1, § 80, 2015 O.J. (L 341) 54–57 (EU).

65. Case C-419/15, *Thomas Philipps GmbH & Co. KG v. Grüne Welle Vertriebs GmbH*, 2016 EUR-Lex CELEX 62015CJ0419 (June 22, 2016).

66. See, e.g., *Jean Christian Perfumes Ltd. v. Sanjay Thakrar* [2011] EWHC (Ch) 1383 (UK) (discussing whether an oral licensee of a Community trade mark has standing to sue for infringement); *Cour de cassation* [Cass.] [supreme court for judicial matters], com., April 3, 2012, 11-14848 (Fr.) (holding that an exclusive patent licensee who has a license on a European patent application must be registered in the European patent registry in order to have the right to sue for infringement).

## III. TOWARD A UNIFIED FRAMEWORK

The diversity of local approaches described above is clearly not adequate in view of the global nature of many IP licensing transactions that are entered into between companies located in different countries and which cover a multiplicity of jurisdictions and countries.

The parties to these license agreements will legitimately expect that their contractual solutions,<sup>67</sup> which provide for a right of the exclusive licensee to sue third-party infringers, will be globally valid and enforceable irrespective of the countries in which the exclusive licensee initiates infringement proceedings. The parties will also legitimately expect that, in the absence of a contractual provision, the default rules that regulate the issue will be global, uniform, and not depend on diverging local laws. It is therefore highly problematic that, based on a unique global contractual source (that is, the international IP license agreement), the exclusive licensee may or may not have the right to enforce the licensed IP rights against third-party infringers depending on the local laws of the country or geographic area in which protection is sought<sup>68</sup> and in which the infringement proceedings are initiated.

It is worth emphasizing that harmonized solutions are also necessary at the national level because differences can exist under the laws of one country, depending on the type of licensed IP rights at stake. It is indeed not infrequent that national IP laws fail to uniformly regulate the issue of whether an exclusive licensee has the right to sue third parties for infringement across the different categories of IP rights.<sup>69</sup> This differential treatment is especially challenging because of the widespread practice of licensing different categories of IP rights under a single license agreement.<sup>70</sup>

This lack of uniformity confirms the need to develop a globally unified legal framework that defines the conditions under which ex-

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67. *See, e.g.,* *Eden Toys, Inc. v. Florelee Undergarment Co.*, 697 F.2d 27, 30 n.2 (2d Cir. 1982) (referring to "relevant portions of the 1975 Eden/Paddington exclusive licensing agreement," including art. 9 on infringement).

68. This is especially true in the European Union in light of the EU body of regulations and case law on this issue.

69. *See* Hans-Jürgen Ahrens & Mary-Rose McGuire, *MODELLGESETZ FÜR GEISTIGES EIGENTUM* 296 (2012) (confirming the differences about the right to sue of a licensee under German patent, trademark, and copyright laws) [hereinafter *GERMAN MODEL LAW*]. *See also* Mary-Rose McGuire, Ludwig von Zumbusch & Björn Joachim, *DEUTSCHLAND: BERICHT Q190: VERTRÄGE ÜBER SCHUTZRECHTE DES GEISTIGEN EIGENTUMS (ÜBERTRAGUNG UND LIZENZEN) UND DRITTE PARTEIEN [GERMANY: QUESTION Q190: CONTRACTS REGARDING INTELLECTUAL PROPERTY RIGHTS (ASSIGNMENTS AND LICENSES) AND THIRD PARTIES]* 6–10 (2006), <http://aippi.org/wp-content/uploads/committees/190/GR190germany.pdf> [<https://perma.cc/9A6N-42EG>].

70. *See generally* *Eden Toys*, 697 F.2d 27.

clusive licensees have the right to sue third-party infringers, and this framework should provide for global rules that apply uniformly to all categories of IP rights<sup>71</sup> and be implemented at the national and regional level.<sup>72</sup> While the framework is primarily intended to apply in the case of an IP owner who, as licensor, contracts with an exclusive licensee, it should also apply as a matter of principle in any subsequent contractual relationships that can be entered into between the exclusive licensee and his or her own exclusive sublicensees.<sup>73</sup>

These rules should first and foremost express the freedom of the parties to decide the issue for themselves, as Section III.A argues. In the absence of a contractual solution in the international license agreement, a set of global default rules should uniformly define the conditions under which an exclusive licensee has the right to sue third parties for infringement, as explained in Section III.B.

#### *A. Private Autonomy*

Parties to an international IP license agreement should have the right to decide if and under what conditions an exclusive licensee has the right to sue third parties for infringement of licensed rights<sup>74</sup> as part of the fundamental principle of private autonomy.<sup>75</sup> Parties to an international IP license agreement are in a position to assess what is in their best interest and to formalize this in their license agreement. From this perspective, any unjustified interference in the private dealings of the parties should be avoided. If the parties have expressly agreed by contract that the exclusive licensee will have the right to sue, it would seem inadequate for a local court or regulator to deny the exclusive licensee such right.<sup>76</sup> Conversely, if the parties have agreed that the exclusive licensee will not have the right to sue, then

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71. See generally Hans-Jürgen Ahrens & Mary-Rose McGuire, MODEL LAW ON INTELLECTUAL PROPERTY LAW: A PROPOSAL FOR GERMAN LAW REFORM, ABBREVIATED ENGLISH EDITION (2013).

72. These rules consequently also apply to national license agreements.

73. The right of an exclusive sublicensee to sue for infringement is also frequently litigated. See, e.g., *Orion Corp v Actavis Pty Ltd (No 3)* [2015] FCR 1373 (Austl.); Tribunal fédéral [TF] [Federal Supreme Court] Jan. 9, 2007, 4C.391/2005 (Switz).

74. It is undisputed that contracting parties can validly enter into so-called “litigation funding clauses” in IP license agreements. See, e.g., *Austral Masonry (NSW) Pty Ltd v Cementech Pty Ltd* [2014] FCAFC 72 (17 June 2014) (Austl.).

75. This is the position reflected in Swiss IP acts, which have adopted the same substantive solution. See e.g., BUNDESGESETZ ÜBER DIE ERFINDUNGSPATENTE [PATG] [FEDERAL ACT ON PATENTS FOR INVENTIONS] June 25, 1954, AS 871 (1955), art. 75, para. 1 (Switz.) [hereinafter Swiss Federal Act on Patents for Inventions] (“Any person who holds an exclusive license, irrespective of the registration of the licence in the Register, is entitled to bring an action as specified in Articles 72 or 73 independently, provided this is not expressly excluded by the licence agreement.”).

76. See *supra* Section II.A.

this expression of private autonomy should also be respected by local courts and regulators.<sup>77</sup>

This principle of party autonomy is reflected in several national regulations<sup>78</sup> and policy proposals,<sup>79</sup> and there is no convincing reason that can justify why the freedom of the parties should be restricted on the basis of local laws. Local civil or procedural laws relating to the conditions for admitting the right to sue should not act as a blocking factor.<sup>80</sup> In this respect, one should admit that an exclusive licensee who sues for infringement of the licensed IP rights does so for the purpose of protecting his/her own right and not the licensor's right. Some local IP regulations clarify this aspect by holding that the position of an exclusive licensee can, under certain circumstances, be assimilated to that of an assignee.<sup>81</sup> The exclusive licensee thus initiates legal action in his/her own right and does not protect the right of the IP owner. On that basis, the exclusive licensee can claim his/her own remedies, including damages, irrespective of the potential remedies and damages that would be available to the IP owner.

On this basis, the principle of freedom of contract affords the parties the possibility to confer through contract a property-like position to the exclusive licensee, in the sense that the exclusive licensee is granted the right to enforce the licensed IP rights against third parties in his or her own name.

It further flows from the general principle of autonomy that the right of the exclusive licensee to sue for infringement should not be made dependent on the accomplishment of local formalities, such as

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77. Exclusive licensees can have different causes of action against third-party infringers, including claims based on unfair competition law. For this reason, an IP owner who wants to avoid the risk of independent legal action by an exclusive licensee should address this in the license agreement. *See* Landsman et al., *supra* note 12, at 1439 & n.8 (discussing the prevalence of private autonomy in licensing for the purpose of excluding actions initiated by the licensee based on the Lanham Act, 15 U.S.C. § 43(a)).

78. *See, e.g.*, Trade Marks Act 1994, c. 26, § 31 (UK) (reflecting this principle in the title: “[e]xclusive licensee having rights and remedies of assignee”).

79. *See, e.g.*, GERMAN MODEL LAW, *supra* note 69, § 122; *see also* Jochen Pagenberg, Dietrich Beier & Stefan Abel, LIZENZVERTRÄGE / LICENSE AGREEMENTS 175 (6th ed. 2008) (setting forth the following model clause: “The parties shall inform each other promptly of any infringement of the patent rights in the territory which are subject to this agreement. . . . Licensee shall take the necessary actions against infringers.”).

80. The question is debated in certain jurisdictions, as the right to sue may be considered an issue subject to local public policy that is consequently excluded from private dealings. *See, e.g.*, *Ortho Pharm. Corp. v. Genetics Inst., Inc.*, 52 F.3d 1026, 1034 (Fed. Cir. 1995) (arguing that although express covenants may “regulate the duties between the licensor and licensee to implement the rights of the parties, . . . a contract cannot change the statutory requirement for suit to be brought by the ‘patentee.’” (citations omitted)).

81. *See, e.g.*, Trade Marks Act 1994, c. 26, § 31 (UK); *see also* Thomas Philipps GmbH & Co. KG v. Grüne Welle Vertriebs GmbH, *supra* note 65, at ¶ 32 (holding that art. 32, para. 3 of Regulation No 6/2002 “must be interpreted as meaning that the licensee can claim damages for its own loss in proceedings for infringement of a Community design brought by it in accordance with that provision.”).

the registration of the exclusive license in a local IP registry.<sup>82</sup> Some national regulations, however, require the registration of the licensee in an official registry. For example, under Indian trademark law, a “registered user” (a trademark licensee who has been duly registered in the relevant registry)<sup>83</sup> has, subject to a contrary contractual provision, the right to sue for infringement, it being specified that the trademark owner must be a defendant in the proceedings.<sup>84</sup> By contrast, a non-registered user has no right to initiate infringement proceedings against third parties.<sup>85</sup>

### *B. Global Default Rules in the Absence of a Contractual Solution*

If an international license agreement does not expressly address the issue whether the exclusive licensee has the right to sue third-party infringers, a set of uniform global rules should apply. These rules should apply by default in the frequent cases in which the parties have not addressed this issue in their license agreement, thus filling a gap in the relevant international licensing agreement.<sup>86</sup> They could naturally also apply if the parties expressly adopt them in their agreement (i.e. opt-in mechanism).<sup>87</sup>

The rules must be global and apply independently from local laws (particularly from the laws of the country in which the legal proceedings are initiated by the exclusive licensee against the third-party infringer) and from the law governing the international license

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82. *See, e.g.*, Hassan v. Breiding Vertriebsgesellschaft mbH, *supra* note 63, at 22, 26; *see also* World Intellectual Property Organization, Singapore Treaty on the Law of Trademarks art. 19 para. 2, Mar. 27, 2006, S. TREATY DOC. No. 110-2 (2007) (prohibiting the recordal of a trademark license from constituting a condition “for any right that the licensee may have under the law of that Contracting Party to join infringement proceedings initiated by the holder”). This provision is identical to art. 4, para. 2(a) of the WIPO Assembly Recommendation, *supra* note 14. It does not, however, prohibit the recordal of a license for the purpose of granting an independent right to sue to the exclusive licensee.

83. *See* Trade Marks Act §§ 48–49, No. 47 of 1999, INDIA CODE (1999).

84. *Id.* § 52.

85. *See, e.g.*, Himalaya Drug Co. v. Arya Aushadhi Pharm. Works, 1999 AIR 110 (MP) (India); Babul Prods. Private Ltd. v. Zen Prods. (2005) 3 GLR 2309 (India); *see also* Raman Mittal, *Trademark Transactions in India: Exploring the Genre, Scope and Consequence*, in *THE LAW AND PRACTICE OF TRADEMARK TRANSACTIONS* §§ 23.33–23.34 (Irene Calboli & Jacques de Werra eds., 2016) (discussing these cases).

86. *See generally* Randy E. Barnett, *The Sound of Silence: Default Rules and Contractual Consent*, 78 VA. L. REV. 821 (1992); *see also* INT’L INST. FOR THE UNIFICATION OF PRIVATE LAW, UNIDROIT PRINCIPLES OF INTERNATIONAL COMMERCIAL CONTRACTS 2010 at 146–147, art. 4.8, <http://www.unidroit.org/english/principles/contracts/principles2010/integralversionprinciples2010-e.pdf> [<https://perma.cc/QX9R-CYQ3>] (describing methods and sources for filling a contractual gap under international (soft) contract law).

87. *See* Baldia, *supra* note 6, at 46–50 (suggesting the adoption of “normative, nonbinding private international transactional IP rules [INT-IP Rules],” and suggesting that “the parties mutually stipulate that all or some material subset of this author’s envisioned INT-IP Rules shall be included in and govern their express contract.”).

agreement.<sup>88</sup> This is of critical importance since a dispute can arise between the licensor and its exclusive licensee regarding whether the exclusive licensee has the right to sue third-party infringers under the license agreement.

The proposed default rules should provide that an exclusive licensee has the right to sue for infringement (see Section III.B.1, *infra*) only after calling on the licensor to initiate infringement proceedings against third-party infringers (see Section III.B.2, *infra*) and, if the licensor does not initiate proceedings, only provided that the licensor had no valid reason for not doing so (see Section III.B.3, *infra*). The default rules should also provide that the exclusive licensee has the obligation to keep the licensor informed about the infringement proceedings and should address the financial consequences of the infringement proceedings that the exclusive licensee initiates (see Section III.B.4, *infra*).

### 1. Right of Exclusive Licensees to Sue for Infringement

The proposed default rule is that, in the absence of an express contractual provision, an exclusive licensee has the right to sue third parties for infringement of the licensed IP rights, provided that certain conditions are met.<sup>89</sup> The rationale for this default rule is that an exclusive licensee, defined as a licensee who enjoys full exclusivity, including against the licensor,<sup>90</sup> is negatively affected by any infringing activity within the scope of the licensee's exclusive use committed by a third party.<sup>91</sup> Since the exclusive licensee is the only one to have the right to use the relevant IP rights within the defined scope of exclusivity, the exclusive licensee is the party that suffers the most from infringing activity committed within that scope.

Certain policy proposals benefit exclusive licensees even further by setting forth a presumption that exclusive licensees have the right to sue infringers of licensed IP rights without imposing any additional conditions. The International Trademark Association ("INTA") Model

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88. In spite of the differences between civil law and common law contract principles, the default rules that would be part of the contemplated global policies would likely be acceptable under both systems.

89. Certain national regulations provide that exclusive licensees are entitled to sue for infringement, subject to any contrary agreement, and thus provide for the right of exclusive licensees to sue as the default rule without imposing further conditions. *See, e.g.*, Swiss Federal Act on Patents for Inventions, *supra* note 75, art. 75, para. 1.

90. *See* WIPO Assembly Recommendation, *supra* note 14, art. 1, cl. IX (definition of "exclusive license").

91. *See* Mark Anderson, *International Patent Licensing*, in RESEARCH HANDBOOK ON INTELLECTUAL PROPERTY LICENSING 126–154, 152 (Jacques de Werra ed., 2013) ("An exclusive licensee has the right, but not the obligation, to sue infringers of the licensed patent within the field of the license. If the exclusive licensee elects not to do so, the licensor may sue such infringers").

Law Guidelines,<sup>92</sup> which are designed to offer “a minimum set of baseline standards by which INTA can evaluate and comment on new trademark legislation, treaties, or regulations,”<sup>93</sup> provide that “[a]part from the registered proprietor, there should be a presumption that exclusive licensees may sue infringers, but subject to contrary agreement with the proprietor”<sup>94</sup> and indicate as a rationale for this principle that “[a]n exclusive licensee has a substantial interest and investment to protect and therefore it should be able to enforce the relevant trademark if the proprietor elects not to do so.”<sup>95</sup> Similarly, the practice that has developed under the Uniform Domain Name Dispute Resolution Policy (“UDRP”) for Internet domain name disputes promotes licensees’ rights to initiate UDRP proceedings in order to obtain the transfer or cancellation of a disputed domain name.<sup>96</sup> The UDRP is a remarkable example of a global, delocalized legal standard providing for a licensee’s right to sue under certain conditions.

## 2. Right to Sue for Infringement After Notification of the Licensor

In order to appropriately protect the legitimate interests of the licensor, the exclusive licensee should not have the right to sue third-party infringers without having first given the licensor the opportunity to sue. It is thus only if the licensor expressly refuses to bring legal action or fails to do so within a given time period that the exclusive licensee should have the right to sue. This approach strikes a fair balance between the interests of the licensor and the licensee. It is reasonable that the licensor be afforded the opportunity to decide whether to initiate proceedings in order to enforce the licensed IP right. At the same time, the licensee should have the right to be reasonably promptly informed about the decision of the licensor so that the licensee can file an independent suit in order to protect his or her exclusivity on the market if the licensor does not act. It is consequently not surprising that this solution is reflected in various regulations<sup>97</sup>

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92. INT’L TRADEMARK ASS’N, MODEL LAW GUIDELINES: A REPORT ON CONSENSUS POINTS FOR TRADEMARK LAWS (Nov. 2007), <http://www.inta.org/Advocacy/Documents/INTAModelLawGuidelines.doc> [<https://perma.cc/6U2M-M96B>].

93. *Id.* at 1.

94. *Id.* at 22.

95. *Id.* at 22.

96. See WORLD INTELLECTUAL PROP. ORG., *WIPO Overview of WIPO Panel Views on Selected UDRP Questions, Second Edition (“WIPO Overview 2.0”)*, para. 1.8 (2011), <http://www.wipo.int/amc/en/domains/search/overview2.0/#18> [<https://perma.cc/3FZY-TB55>] (“In most circumstances, a licensee of a trademark or a related company such as a subsidiary or parent to the registered holder of a trademark is considered to have rights in a trademark under the UDRP.”).

97. See, e.g., Directive (EU) 2015/2436, *supra* note 52, art. 25, para. 3. See also Trade Marks Act 1994, c. 26, § 30 (UK).

and policy proposals.<sup>98</sup> A practical question is whether it is appropriate to set a fixed time period within which the licensor must react<sup>99</sup> or whether it is preferable to maintain a certain degree of flexibility.<sup>100</sup> While a fixed period of time presents the obvious advantage of offering a clear and predictable solution, it nevertheless appears too rigid because of the importance of adapting the time period to the specific circumstances of the case. Imagine a sudden infringing activity that would be highly damaging to the brand value of the licensed trademark due to the massive presence of poor quality products in the market that manifestly infringe the trademark. In these circumstances, the exclusive trademark licensee should be able to request a quick reaction from the licensor so that the exclusive licensee can quickly stop the infringing activity if the licensor fails to do so. By contrast, other circumstances may justify a longer reaction time — for instance, in cases in which the licensor’s assessment of the nature and extent of the allegedly infringing activity would be highly complex and time-consuming, as can often be the case under patent law. For this reason, it appears appropriate to adopt a flexible default rule by which the licensor is expected to react within a reasonable period of time, without imposing a fixed period.<sup>101</sup>

The notification by the exclusive licensee to the licensor is closely connected to the contractual obligation that can be imposed on the licensor to sue third parties for infringement.<sup>102</sup> If such contractual obligation exists, the licensor must enforce the licensed IP right against third-party infringers. By failing to do so after being notified by the exclusive licensee of an infringing activity, the licensor would be in breach of contract unless the licensor has legitimate grounds for refusing to act against the third-party infringer. The request to take action against the infringer thus constitutes a formal invitation to the licensor to perform its contractual obligation.

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98. See GERMAN MODEL LAW, *supra* note 69, § 122, para. 1 (“The holder of an exclusive license may bring such proceedings if the rightholder, after formal notice, does not himself bring infringement proceedings within an appropriate period . . .”).

99. See, e.g., Trade Marks Act 1994, c. 26, § 30(2)–(3) (UK) (giving two months’ notice).

100. See, e.g., GERMAN MODEL LAW, *supra* note 69, § 122, para. 1 (giving the licensor an “appropriate period” to react).

101. The exclusive licensee should set a reasonable time period in his or her notification to the licensor by which the licensor shall notify its decision. If such time period is too short, the licensor shall notify this quickly to the exclusive licensee.

102. Many license agreements specifically address this issue and provide that the licensor shall have a contractual obligation to sue infringers of the licensed IP rights. This obligation of the licensor is reflected in the German Model Law, see GERMAN MODEL LAW, *supra* note 69, § 115, paras. 1–2 (“The licensor shall be obligated towards the licensee to defend the intellectual property right against infringements of third parties.”).

### 3. Right of the Licensor to Prevent the Initiation of an Infringement Suit

As reflected in the German Model Law,<sup>103</sup> the licensor may have legitimate, good-faith reasons to object to the initiation of infringement proceedings against a third party by the exclusive licensee. This may be the case, for instance, in a multi-territorial dispute covering territories and fields that would extend beyond those covered by the exclusivity granted to the licensee. In such circumstances, the licensor has an interest in coordinating all local litigation proceedings and may even want to negotiate directly with the third party to enter into a global settlement. The licensor may thus have legitimate reasons to object to the initiation of infringement proceedings by the exclusive licensee because the proceedings could disrupt the licensor's overall litigation and negotiation strategy against the third party. Similarly, the licensor may have an interest in objecting to the initiation of infringement proceedings if the licensor knows or reasonably believes that the proceedings would risk invalidation of the licensor's IP rights. The licensor would have an interest in avoiding this risk by preventing the licensee's proceedings from taking place. The licensor may also want to control or prevent the initiation of a suit if it previously granted a conflicting license to a third party.<sup>104</sup>

In all of these cases, to the extent the licensor believes that it has legitimate reasons to object to the initiation of infringement proceedings by the exclusive licensee, the licensor should have to disclose those reasons to the licensee for the licensee to be in a position to understand them and decide on this basis.

### 4. Obligation to Keep the Licensor Informed About the Proceedings

The right of the exclusive licensee to sue for infringement independently from the licensor does not deprive the licensor of the right to be informed about the infringement proceedings. The obligation to inform should not be limited to a notification from the exclusive licensee to the licensor at the time the proceedings are initiated, but rather should be imposed throughout the course of the proceedings.

The licensor has a legitimate interest in staying informed about the proceedings because they may have a legal or strategic impact on

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103. *See supra* note 69 and accompanying text.

104. If a licensee initiates an action for infringement against a third party who has also obtained a license from the IP owner, national courts may consider that such infringement action cannot be brought in the absence of consent of the IP owner. The licensee would only have contractual remedies against the licensor if the licensor has granted license rights to a third party which are inconsistent with the license rights granted to the licensee. *See, e.g., Northern & Shell plc v. Condé Nast & Nat'l Magazines Distrib. Ltd.* [1995] RPC 117 (UK); *see also* Anderson, *supra* note 3, at 373 (discussing this case).

the licensor. This can especially be true if the validity of the licensed IP rights is challenged or otherwise debated in the proceedings. The obligation of the exclusive licensee to keep the licensor informed about the proceedings enables the licensor to decide whether to voluntarily join the proceedings, for example if the licensor determines it needs to do so to protect its own interests.<sup>105</sup> Some local rules even require that the licensor or IP owner be a party to the proceedings initiated by the exclusive licensee against a third-party infringer of the licensed IP right.<sup>106</sup>

#### 5. Financial Consequences of Proceedings Initiated by the Exclusive Licensee

It logically flows from the right of the exclusive licensee to sue for infringement independently from the licensor that the exclusive licensee should bear the costs of the proceedings that he/she initiates. And given that the exclusive licensee sues for infringement in his or her own name,<sup>107</sup> he or she should also be able to keep the financial benefits that may result from the proceedings. If the licensor joins the proceedings, the relevant costs and benefits should be allocated between the licensor and the licensee in light of the concrete circumstances of the case. In particular, the allocation should take into account the fact that the licensor should not be unreasonably burdened by the costs of proceedings that have been initiated by the exclusive licensee without the licensor's approval.<sup>108</sup>

### IV. CONCLUSION

While global IP licensing transactions are of key importance for contracting parties and society as a whole, they also bring about numerous legal challenges due to the tensions that continue to exist between the globalism of IP transactions and the localism of the applicable regulatory IP framework that governs them.<sup>109</sup> Focusing on the right of exclusive licensees to sue for infringement of licensed IP rights, this Article suggests that parties should be free to decide

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105. Interestingly, scholarly articles have made proposals to create flexibility with respect to whether the IP owner or licensor must join the proceedings. *See generally* Jeffrey Bashaw, *FRCP 19: A Preferable Alternative to Traditional Judicial Rules for Determining Patent Licensee Standing*, 4 SHIDLER J.L. COM. & TECH. 7 (2007) (advocating for the application of Fed. R. Civ. P. 19).

106. *See, e.g.*, The Patents Act 1977, c. 37, § 67(3) (UK) (“In any proceedings taken by an exclusive licensee by virtue of this section the proprietor of the patent shall be made a party to the proceedings . . .”).

107. *See supra* Section III.B.

108. The protection of the financial interests of the licensor or IP owner is duly reflected in certain regulations. *See, e.g.*, The Patents Act 1997, *supra* note 106, § 67.

109. *See* Baldia, *supra* note 6, at 31–36; *see generally* Dizon, *supra* note 8.

whether, and under what conditions, an exclusive licensee shall have such right. This Article also supports the development of global default policies that should overcome the application of conflicting local rules that presently generate fragmentation that raises a number of difficulties for parties of international IP license agreements. Of course, this policy proposal presupposes that the application of conflicting local rules can be avoided, which may not be easy to achieve. It can only be hoped that a global uniform regime will be able to achieve dominance in the future. Local courts and regulators should understand the interest of creating a global marketplace for the circulation of IP assets that maximizes the benefits of international IP licensing transactions. This of course is not to say that party autonomy in international IP licensing agreements must prevail in all circumstances over local public policies.<sup>110</sup> But local public policies should only interfere with party autonomy in exceptional circumstances.<sup>111</sup>

The development of these global policies should thus be encouraged, bearing in mind that a single global legal source — the global license agreement — is at the heart of these international IP transactions. These global agreements legitimately create an expectation that there is a corresponding uniform, global regulatory framework governing the legal issues that relate to them; this includes global rules about the right of exclusive licensees to sue for infringement.

The need for global harmonization of IP licensing law is also clear in the highly debated discussion regarding the meaning of the concepts of fair, reasonable, and non-discriminatory (“FRAND”) patent licensing terms and conditions.<sup>112</sup> This confirms that the time is ripe for the creation of global IP licensing policies that equitably balance the respective rights and obligations of the contracting parties: a global IP marketplace requires global IP licensing rules.

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110. There are, of course, circumstances in which public policy may control the content of IP licensing transactions, particularly as regards antitrust concerns, as reflected in the TRIPS Agreement, *see* TRIPS Agreement, *supra* note 13, art. 40, para. 1.

111. *See Regency Media Pty Ltd v MPEG LA, LLC* (2014) 231 FCR 588 (Austl.) (applying s 145 of the *Patents Act 1990* (Austl.), which provides for the right to terminate a patent license upon the expiry of the licensed patent, to a case involving a multi-patent license, even if the license agreement was governed by U.S. law).

112. *See* Doug Lichtman, *Understanding the RAND Commitment*, 47 HOUS. L. REV. 1023, 1031 (2010) (“It is something of an outrage that the language of the RAND commitment offers so little guidance as to its proper interpretation.”); *see also* Rebecca Haw Al-ensworth, *Casting a FRAND Shadow: The Importance of Legally Defining “Fair and Reasonable” and How Microsoft v. Motorola Missed the Mark*, 22 TEX. INTEL. PROP. L.J. 235 (2014); Jacques de Werra, *Patents and Trade Secrets in the Internet Age*, 134 REVUE DE DROIT SUISSE II 146–64 (2015).