

IPR & Joint Ventures

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Facts

- Company Big has an established position in the market with a software product called “Antony”.
- Company Small has invented a tool, called “Octavian”. This tool could allow the connectivity of Big Company’s Antony product to a third party product called “Cleopatra”, which is market dominant in its market.
The combination of Antony and Cleopatra would be very powerful, and would probably lead to major increased sales of the Antony software.
- However, in order for Antony and Octavian to connect, a joint interface needs to be developed.
- Antony is not patented, its only protection lies in the trade secret and the copyright of the code (whether or not it is patentable has not been verified).
- For the joint interface to be developed, Company Small needs to disclose its trade secrets, which would in theory allow Company Big to reverse engineer Octavian and produce their own version of Octavian.
- Company Big uses subcontractors, but for them in order to be efficient, they need to fully understand Company Small’s technology
- Big and Small want to set up a joint-venture, which will develop the interface. They are not quite sure yet who will sell the interface but they want to make sure that agreed terms and conditions and prices will be used in end-user contracts.

Overview of issues for Company Big

- Product issues:
 - Does Octavian actually work?
 - Does Octavian provide connectivity between Antony & Cleopatra?
 - Does Octavian answer the demands of my customers?
- What are my risks from a competition law point of view?
- Control of subcontractors (knowledge, IP, liability)?
- Who will own the interface? What is the relationship between this ownership and the other products around it?
- Should I make my own Octavian?
- How will the JV agreement cover these?

Overview of issues for Company Small

- Product issues:
 - Does Antony actually work?
 - Does Octavian and the joint product answer the demands of my customers?
- What are my risks from a competition law point of view?
 - What does it mean to work with a large company?
 - May we agree on client terms and prices?
- How do I protect my knowledge and IP?
 - What if Company Big revers engineers Octavian?
 - What if Company Big's subcontractors infringe my IP rights?
- Who will own the interface? What is the relationship between this ownership and the other products around it?
- Should I make my own interface between Antony and Cleopatra and sell it to Company Big?
- How will the JV agreement cover these?

Product Issues (for each side)

- Product issues:
 - Product review
 - Market analysis
 - Pilot project – what happens if success/failure?
 - Who will cover upfront costs?
- In the agreement
 - IPR & confidentiality during review (possibly with penalty clause)
 - Success criteria for Pilot, consequences
 - Payment conditions and terms
 - Walk away?
 - Costs?
 - Enforceability?
 - Limitation of liability?

Competition Law Issues

- Impact of the dominant position of Big
- Exclusivity clauses
- Fixed client terms and prices
 - Allow one or both parties to market the software
 - Setting up a company for the joint venture

Competition Law Issues

- Dominance:
 - Are Big and Small competitors?
 - No: the JV Agreement may be exempted for the duration of the R&D + 7 years if joint exploitation
 - Yes: the same applies until the combined market share does not exceed 25%

(Commission Regulation 2659/2000 R&D Agreements + Guidelines on Horizontal Cooperation Agreements 2001)

Articles 81 and 82 TEC remain applicable

Competition Law Issues

- Exclusivity clauses

Obligation not to carry out, independently or with third parties, R&D in the field to which the Agreement relates or in a closely connected field during the execution of the Agreement: exempted

(Regulation 2659/2000)

Competition Law Issues

Fixed client terms and prices

- Allow one or both parties to market the software
 - Only joint R&D: the fixing of prices/terms is not exempted + each party must be free to exploit the results
 - Joint R&D + Joint distribution: the setting of sales targets and the fixing of prices charged to immediate customers is exempted

(Regulation 2659/2000)

Competition Law Issues

Fixed client terms and prices

- Setting up a company for the joint venture:

Full-function? Performing on a lasting basis all the functions of an autonomous economic entity: EC Merger Regulation 139/2004 or either Article 81 TEC/ national law apply

Subcontractors

- Control of subcontractors
 - Training? Who will provide it?
 - IP ownership & management
 - Liability
- Agreement
 - Control mechanisms
 - IP language
 - Non poaching
 - Limitation of liability
 - Penalties

Interface

- Interface issues
 - Interference of Copyright Act
 - Who will own the IP? Looking for creativity & combine with the business model
 - Exclusivity
 - With respect to the interface
 - With respect to the existing products (Octavian / Antony)
 - Performance and support/maintenance issues?
 - Liability for performance and IP – escrow?
 - Open source interference?
- Agreement
 - IP rights
 - SLA's
 - Liability clauses

Make your own? (Big)

- Company Big: Make my own Octavian?
 - IP issues
 - Performance issues
 - Competition issues
- Agreement
 - Will this agreement block my entry into the market, even if the project is unsuccessful?

Make your own? (Small)

- Company Small: Make my own Interface?
 - IP issues
 - Performance issues
 - Competition issues
 - Use of pre-existing tools (open source)
- Agreement
 - Will this agreement block my entry into the market, even if the project is unsuccessful?

Negotiations

- Main negotiation points:
 - Successful project
 - IP & business model
 - Entry into market
 - competition

Conclusion