

If A Contract Granting an Intellectual Property Licence is Terminated, Can the Licensee Continue to Use the IP?

Timothy Webb provides some helpful tips for businesses and their lawyers negotiating IP licences including that parties should consider clearly documenting in the agreement what should happen to an IP licence if the agreement is terminated.

The licensing of intellectual property - whether it be an invention, copyright material, a trade mark, design or plant variety - is critical to the commercial success of almost all businesses. For both licensee and licensor, it is important that the scope of IP licences are clear. A key element of each licence is the length of its term. It may be a fixed period or perpetual. But what happens if the agreement containing the IP licence is terminated prior to the expiration of the licence? Does the licence continue or also terminate?

Some would assume that if the agreement terminates, then the licence granted by that agreement must terminate also. But as a recent case illustrates, that is not necessarily the case.

THE PINK LADY CASE

Apple and Pear Australia Limited (**APAL**) is the peak representative body in Australia for commercial apple and pear growers. It is the registered owner of PINK LADY trade marks in many countries around the world, but had repeatedly failed to register the mark in Chile. Chile had become a substantial producer and exporter of pink lady branded apple varieties such that this failure significantly impeded the effective management of the brand.

Pink Lady America LLC (PLA) applied to register in Chile certain PINK LADY trade marks for use with the trade in apples. APAL and PLA entered into an Option Deed, under which PLA agreed to grant to APAL an option to acquire ownership of any trade marks that might ultimately issue in Chile. If the option were exercised, APAL would grant to PLA an exclusive, perpetual and royalty free licence to use those marks in respect of trade between Chile and North America. The licence was terminable only on specific quality control conditions.

In *Apple & Pear Australia Ltd v Pink Lady America LLC* [2015] VSC 617, the Victorian Supreme Court considered a range of issues in dispute between the parties, including, if the Option Deed had been terminated and APAL was entitled to retain the trade marks, whether the licence to PLA continues.

PAL argued that when a contract is terminated for breach or on acceptance of a repudiation, only future obligations are discharged and accrued rights (such as the trade mark licence) continue. APAL argued that a perpetual licence is not an accrued right, such as a

right to payment, fully formed regardless of whether the contract from which it derives continues to subsist. It is, by contrast, it submitted, a permission, which subsists only for so long as the contract which governs it continues to subsist.

Croft J noted that the question of whether a right is accrued such that it survives termination is a matter of construction of the contract concerned. In this respect, the words of the licence were very important: *"this licence... will last in perpetuity subject only to the quality control provisions contained herein"*. His Honour held that this indicated that the parties' intention was that, once enlivened, the licence could not be brought to an end, except in that one circumstance. Consequently, as a matter of construction, the licence survived termination of the Option Deed.

LESSONS FOR BUSINESS AND THEIR LAWYERS

This decision is a reminder to those negotiating IP licences to actively consider what should happen to a licence if the agreement is terminated, and ensure the contract reflects that intention. This is particularly important in the case of perpetual licences, and any licence expressed to be operative subject to certain conditions. Expressly addressing the issue, for example in a termination clause, will ensure that there is no doubt as to the parties' intentions, and minimise the risk of subsequent dispute.

TIMOTHY WEBB is a partner at Clayton Utz in Sydney.

Expressly addressing the issue... in a termination clause, will ensure that there is no doubt as to the parties' intentions, and minimise the risk of subsequent dispute
