

Licensing 2021

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Licensing 2021

Contributing editors**Simon Chalkley and Fiona Nicolson**

Keystone Law

Lexology Getting The Deal Through is delighted to publish the thirteenth edition of *Licensing*, which is available in print and online at www.lexology.com/gtdt.

Lexology Getting The Deal Through provides international expert analysis in key areas of law, practice and regulation for corporate counsel, cross-border legal practitioners, and company directors and officers.

Throughout this edition, and following the unique Lexology Getting The Deal Through format, the same key questions are answered by leading practitioners in each of the jurisdictions featured. Our coverage this year includes a new chapter on Sweden.

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Every effort has been made to cover all matters of concern to readers. However, specific legal advice should always be sought from experienced local advisers.

Lexology Getting The Deal Through gratefully acknowledges the efforts of all the contributors to this volume, who were chosen for their recognised expertise. We also extend special thanks to the contributing editors, Simon Chalkley and Fiona Nicolson of Keystone Law, for their continued assistance with this volume.



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OVERVIEW

Restrictions

- 1 | Are there any restrictions on the establishment of a business entity by a foreign licensor or a joint venture involving a foreign licensor and are there any restrictions against a foreign licensor entering into a licence agreement without establishing a subsidiary or branch office? Whether or not any such restrictions exist, is there any filing or regulatory review process required before a foreign licensor can establish a business entity or joint venture in your jurisdiction?

In principle, there are no such restrictions. However, business entities that are incorporated under foreign law, but are active on the Dutch market rather than within their own country, are subject to the Companies Formally Registered Abroad Act (CFRA Act). The CFRA Act does not apply to members of the European Union and countries that are members of the European Economic Area Agreement. All other entities must comply with certain requirements applicable to Dutch entities (registration with the Commercial Register and filing of annual accounts with the Commercial Register where the business entity is registered).

KINDS OF LICENCES

Forms of licence arrangement

- 2 | Identify the different forms of licence arrangements that exist in your jurisdiction.

Dutch law does not define types of licences as such. Simply, any exclusive right or asset can be the subject of a licence, governed by the general provisions on Dutch contract law and – if applicable – the specific provisions in specialised acts, such as the Dutch Patent Act. Licences can include intellectual property rights (such as trademarks, patents, design rights, technology transfer, copyrights or software) and confidential know-how. The licence can be granted on a pending application or a registered right, and can be limited in time or perpetual, sole, exclusive or non-exclusive, limited in scope (for certain use only), for free or for consideration, compulsory (for certain patent licences) or by law (copy for the private use of copyrighted work).

The Dutch government recently adopted the Dutch Franchise Act that entered into force on 1 January 2021. Under the Franchise Act, a franchise agreement is:

an agreement pursuant to which the franchisor grants a franchisee, in return for a fee, the right and the obligation to operate a franchise formula, in the manner indicated by the franchisor, for the production or sale of goods or the provision of services.

Under the Franchise Act, a franchise formula is qualified as:

an operational, commercial, and organizational formula for the production or sale of goods or the provision of services that is decisive for a uniform identity and image of the franchise enterprises within the chain where this formula is applied, and that in any case comprises:

- (i) a trademark, model or trade name, house style or design; and*
- (ii) know-how: ie, an entirety of practical information not protected by intellectual property rights, derived from the franchisor's experience and from the investigations it has carried out, which information is secret, substantial, and identified.*

The formula is key for the existence of a franchise agreement and must consist of a licensed intellectual property right (usually a trade name or brand) and know-how, that is, practical information that must be secret, essential and identified. According to the explanatory memorandum accompanying the Franchise Act, the qualification of a franchise agreement does not depend on the parties' qualification or title of the agreement but on the factual content of their relationship. If an agreement covers all elements of the definitions mentioned above regarding the franchise agreement and franchise formula, the mandatory provisions of the Franchise Act are applicable. A key factor of a franchise relationship is the franchise formula. This formula should be maintained and continuously developed and not only grant the franchisee the right but also imposes an obligation to exploit the franchise formula in a manner designated by the franchisor. To qualify as a franchise agreement, the existence of a supplier is required who, in return for payment, grants the right to use a specific business concept and imposes an obligation on the counterparty to apply that business concept or know-how provided to preserve the common identity and reputation of that same business concept.

The franchise agreement is distinct from other forms of commercial agreements in the sense that the core of the franchise agreement is the transfer (license) of a business concept/knowledge and of intellectual property rights with the associated right of the franchisor to supervise the application of the transferred know-how and use of the intellectual property rights to maintain a uniform identity and image of the franchise company within the chain. A feature resulting from the above is that the franchisee pays a licence fee (royalty) to the franchisor for the permitted benefits. Incidentally, this fee may also be factored into the prices that the franchisee is required to pay for products or services supplied.

As the Franchise Act is brand new and there is currently no (explanatory) case law, it cannot be ruled out that a court may interpret the Franchise Act differently and the interpretation of the Franchise Act will probably evolve in time. When deciding in matters concerning the Franchise Act, a court or arbitrational panel will take into account all relevant circumstances, which includes the specific facts, the nature of the franchise formula or organisation and the position of the franchise organisation as well as the position of the franchisee(s).

LAW AFFECTING INTERNATIONAL LICENSING

Creation of international licensing relationship

- 3 | Does legislation directly govern the creation, or otherwise regulate the terms, of an international licensing relationship? Describe any such requirements.

There is no specific legislation that governs the creation or regulates the terms of an international licensing relationship or that governs royalty rates or fees that may be charged. The Dutch Civil Code (DCC) does not contain specific provisions on licensing, the general provisions on Dutch contract law apply as well as Dutch court decisions. Book 6 of the DCC sets out the requirements relating to the formation of contracts. These provisions must be read in conjunction with the more general rules regarding legal actions; that is, actions intended to invoke legal consequences as provided in Book 3 DCC.

Further, commercial contracts (including licence agreements) are governed by the 'principle of reasonableness and fairness' (based on article 6:248(1) of the DCC). This principle may not only supplement the existing contract and relationship but may also derogate from the contract the parties agreed upon at an earlier stage, in the event a provision is – under the circumstances at hand – unacceptable according to the principle of reasonableness and fairness. The standard to derogate from an agreed provision is high. That said, especially (very) large companies should be aware that a provision in an existing contract could be set aside by the principle of reasonableness and fairness if it is very one-sided and thus unacceptable in the given circumstances (eg, a provision that the licence relationship may be terminated by one of the parties at any given moment upon only 30 days' notice, especially when dealing with a (very) small or dependent counterparty). It is not possible to predict what kind of provisions may be set aside, if any, since the court will consider all relevant circumstances, including the economic power of each party, the interdependency of the parties, the duration of the contract, the investments made by either party, what each party could reasonably expect from the other party and all other relevant circumstances.

As a general rule, Dutch courts generally tend to protect economically weaker (smaller) parties at the expense of stronger (larger) parties. However, this certainly does not mean that simply by being a 'weaker' party, certain clauses will be set aside. In general, an agreed contract in writing will define a relationship primarily. Whether there are grounds to deviate from a written contract, depends on all circumstances of the matter including the expectations of the parties when executing the contract.

Dutch Franchise Act

The new Dutch Franchise Act is effective as of 1 January 2021. When an agreement qualifies as a franchise agreement, the following mandatory provisions are applicable.

Disclosure obligations

The franchisor has far-reaching disclosure obligations in the pre-contractual phase. This includes any information that is or could reasonably be relevant for the conclusion of a franchise agreement. To provide the necessary information under the Franchise Act, the franchisor can prepare a Franchise Disclosure Document. Also, during the term of the franchise agreement, the franchisor needs to regularly provide information on topics such as required investments, amendments to the franchise agreement, franchisor's use of derived formulas and any other information deemed relevant.

Standstill period

The above-mentioned information has to be provided to the franchisee at least four weeks before the conclusion of the franchise agreement.

During this period, it is, for example, not possible to amend the draft franchise agreement, unless such amendment is to the benefit of the franchisee.

Right of consent

The franchisee has to give its prior consent if the franchisor intends to alter the franchise formula using a provision contained in the franchise agreement or intends to have a derived formula operated directly or through third parties without amending the franchise agreement and the franchisor requires from the franchisee an investment, fee, surcharge or other financial contribution or can reasonably foresee that the implementation will lead to costs or loss of turnover.

Assistance and support

During the term of the franchise agreement, the franchisor must provide continued assistance and commercial and technical support that may be reasonably expected by the franchisee, bearing in mind the nature and scope of the franchise formula.

Goodwill and non-competition

The franchise agreement should include a provision relating to accrued goodwill in the franchisee's enterprise. It should be clear on how the value of goodwill is determined and how it is remunerated when the franchise agreement expires or is terminated and the franchisor takes over the franchise enterprise. Any non-compete obligation must not exceed one year after the end of the franchise relationship and must be limited to the geographic area in which the franchisee has operated.

For franchise relationships with partners operating their franchise business in the Netherlands, it will not be possible to deviate from the Franchise Act to the detriment of the franchisee. The Franchise Act will apply and will be mandatory insofar it protects the franchisee. It is possible to exclude the Franchise Act from applying to franchise (or similar) relationships with partners who operate outside of the Netherlands. However, the franchisees will have to explicitly agree with this, a deviation from the Franchise Act cannot be imposed one-sidedly.

Existing franchise agreements are subject to a transitional period of two years regarding specific provisions such as the right of consent, non-competition and goodwill. New agreements or renewed franchise agreements concluded after 1 January 2021 need to fully comply with the Franchise Act. As of 1 January 2023, all franchise agreements, including existing agreements, must fully comply with the Franchise Act. Owing to these short timelines, franchisors will have to align their franchise agreements with Dutch franchisees in a relatively short time period.

Competition law

Besides the civil law aspects, in licensing (as well as distribution and all other vertical agreements), competition laws play an important role and should be kept in mind. Commission Regulation (EU) No. 330/2010 of 20 April 2010 on the applicability of article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices (the Commission Regulation on vertical agreements) is important, as well as the EU Guidelines thereto.

Pre-contractual disclosure

- 4 | What pre-contractual disclosure must a licensor make to prospective licensees?

Pre-contractual disclosure requirements stem from unwritten law and case law, which impose upon contracting parties the duty to inform and investigate. Parties are entitled to rely on the accuracy of each other's information and must always bear in mind each other's reasonable expectations. The principle of reasonableness and fairness can also play a role.

In the event the licence agreement qualifies as a franchise under the (new) Dutch Franchise Act, there will be pre-contractual disclosure requirements that need to be respected.

Registration

- 5 | Are there any requirements to register a grant of international licensing rights with authorities in your jurisdiction?

There are no requirements to register the grant of international licensing rights with authorities in the Netherlands. However, only after registration does a licence obtain third-party effect.

INTELLECTUAL PROPERTY ISSUES

Paris Convention

- 6 | Is your jurisdiction party to the Paris Convention for the Protection of Industrial Property? The Patent Cooperation Treaty (PCT)? The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs)?

The Netherlands is a party to all three treaties.

Contesting validity

- 7 | Can the licensee be contractually prohibited from contesting the validity of a foreign licensor's intellectual property rights or registrations in your jurisdiction?

Such contractual arrangement can be made. However, the principles of reasonableness and fairness, which apply to all contractual relationships, may cause such an arrangement to be invalid or be set aside depending on the facts and circumstances of a particular matter. Also, under certain circumstances, such an arrangement may be contrary to the applicable competition laws.

Invalidation or expiry

- 8 | What is the effect of the invalidity or expiry of registration of an intellectual property right on a related licence agreement in your jurisdiction? If the licence remains in effect, can royalties continue to be levied? If the licence does not remain in effect, can the licensee freely compete?

The effect is governed by the terms of the licence agreement. If the agreement does not provide for such a situation and the licensed right expires, the licence (at least insofar as the expired right is concerned) also ends. If the licensed right is declared invalid, it has (owing to the retroactive effect thereof) never existed. However, this does not affect the agreement concluded prior to the invalidity insofar as it has been performed prior to the invalidity date. Nevertheless, depending on the circumstances, repayment of royalties already paid may be claimed (article 55 of Regulation (EU) No. 2017/1001 (European Trademark Regulation) and article 26 of Regulation (EC) No. 6/2002 (European Design Regulation)). After the licence has ended, the licensee can, in principle, freely compete with the former licensor, although the agreement may contain non-compete provisions that survive the termination of the licence. Whether those provisions are enforceable against the licensee depends on compliance with competition law. Competing with the licensor may, under the terminated agreement, also be prohibited owing to possible contractual restrictions on the use of licensed secret know-how.

Requirements specific to foreigners

- 9 | Is an original registration or evidence of use in the jurisdiction of origin, or any other requirements unique to foreigners, necessary prior to the registration of intellectual property in your jurisdiction?

Yes, unless a priority right is invoked under article 4C of the Paris Convention for the Protection of Industrial Property 1883 (Paris Convention).

Unregistered rights

- 10 | Can unregistered trademarks, or other intellectual property rights that are not registered, be licensed in your jurisdiction?

Under Benelux trademark law, unregistered trademarks do not receive trademark protection (unless they fall within the scope of article 6 bis of the Paris Convention). However, parties can conclude licences for the use of unregistered signs, such as trade names and domain names. Further, unregistered rights such as copyrights or unregistered community design rights can also be licensed, as well as confidential know-how.

Security interests

- 11 | Are there particular requirements in your jurisdiction to take a security interest in intellectual property?

A security interest in an intellectual property right must be vested by a written deed to that effect, which must contain a description of the pledged subject. There are no particular requirements for security interests in intellectual property rights. However, in order for the security interest (ie, a right of pledge) to have third-party effect, the security interest should be registered in the official intellectual property registers in case of a registered intellectual property right (such as a trademark, design right or patent). If a right of pledge is vested in an intellectual property right for which no register exists (such as copyrights), there is no such obligation. Usually, a deed of pledge will be registered with the tax authorities anyway.

Proceedings against third parties

- 12 | Can a foreign owner or licensor of intellectual property institute proceedings against a third party for infringement in your jurisdiction without joining the licensee from your jurisdiction as a party to the proceedings? Can an intellectual property licensee in your jurisdiction institute proceedings against an infringer of the licensed intellectual property without the consent of the owner or licensor? Can the licensee be contractually prohibited from doing so?

Yes. The foreign owner or licensor is, in principle, free to act on its own against infringements, but the licensee can join the proceedings to claim its own damages. The licensee cannot initiate proceedings for infringement without the licensor's consent and the licensee can only initiate proceedings of its own to claim damages with the express permission of the owner. However, the Court of Justice of the European Union has ruled (*Hassan v Breiding and Thomas Phillips v Grüne Welle*), that regarding EU trademarks and designs, the holder of an exclusive licence may initiate proceedings without the licensor's consent if the licensor does not act after having been urged to do so. It furthermore ruled that the licensee can take action with the consent of the licensor, even if the licence has not been registered.

Often, licence agreements contain specific wording on actions to be taken in the event of infringements (eg, who will take the action or how will damages be distributed).

Sub-licensing

- 13 Can a trademark or service mark licensee in your jurisdiction sub-license use of the mark to a third party? If so, does the right to sub-license exist statutorily or must it be granted contractually? If it exists statutorily, can the licensee validly waive its right to sub-license?

Benelux trademark law does not allow or prohibit sub-licensing as such. Trademark licences fall within the scope of contractual relations, which are executed between the contracting parties. As a consequence, the licensor should give permission to the licensee for the granting of sub-licences. Further, it is recommended that the licensor and licensee agree on the consequences of the sub-licence (such as term, conditions, royalties), to avoid disputes over time.

Jointly owned intellectual property

- 14 If intellectual property in your jurisdiction is jointly owned, is each co-owner free to deal with that intellectual property as it wishes without the consent of the other co-owners? Are co-owners of intellectual property rights able to change this position in a contract?

Based on general civil law, the main rule is that co-owners only have a joint authority. There are some exceptions to this main rule:

- each co-owner is entitled to use all community assets on condition that this use is compatible with the rights of the other co-proprietors;
- ordinary maintenance operations and operations to preserve the assets of the community of property, and in general operations that cannot be postponed without causing damage, may be performed by all co-owners, if necessary independently; and
- every co-owner is entitled to file legal claims and to lodge legal applications at the court to get a judicial decision on behalf of the community of property.

However, the co-owners may make a contractual arrangement for the enjoyment, the use and the administration of the community assets and deviate from the above-mentioned main rules.

In addition to these main rules, there are some specific regulations following from the several intellectual property laws. Such rules precede the general civil rules.

The Benelux Convention for Intellectual Property 2005 does not know specific rules for the co-ownership of a trademark. General civil law applies.

The Dutch Copyright Act states that where two or more persons own the joint copyright in the same work, any one of them may enforce the right unless otherwise agreed. This rule is similar to general civil law.

The Dutch Patent Act 1995 also knows a specific regulation for co-ownership for registered patents. It states that if various persons are jointly entitled to a patent, their mutual relationship shall be governed by an agreement made between them. If no such agreement has been made or if the agreement does not provide otherwise, any person entitled to the patent shall have the right to solely use, maintain and exploit the patent. However, a licence may be granted only with the joint consent of the persons entitled to the patent.

First to file

- 15 Is your jurisdiction a 'first to file' or 'first to invent' jurisdiction? Can a foreign licensor license the use of an invention subject to a patent application but in respect of which the patent has not been issued in your jurisdiction?

The Netherlands has a 'first to file' system. Patent applications can be licensed. If the patent is not granted, the licensor may terminate the agreement. The licensor may only continue to collect royalties if the licensor continues to make certain efforts for the benefit of the licensee. Usually, the parties will make the validity of the licence conditional upon the patent being granted.

Scope of patent protection

- 16 Can the following be protected by patents in your jurisdiction: software; business processes or methods; living organisms?

The 1995 Dutch Patent Act explicitly excludes software and business processes or methods from protection. However, the courts in Europe are becoming increasingly lenient in granting patents for software and business processes or methods, if the invention meets certain technical standards. Microorganisms (eg, bacteria) can, in general, be patented. Patenting animal and plant species is difficult, but it is possible to patent inventions that are applicable in animals, as well as a wide variety of animals and plants in which a certain invention has been applied (eg, all plants that are resistant against a certain herbicide).

Trade secrets and know-how

- 17 Is there specific legislation in your jurisdiction that governs trade secrets or know-how? If so, is there a legal definition of trade secrets or know-how? In either case, how are trade secrets and know-how treated by the courts?

With the acceptance of Directive 2016/943/EU (Trade Secrets) as per 5 July 2016, EU member states had a maximum of two years to incorporate the Directive's provisions into domestic law. The Dutch Senate accepted the draft Trade Secrets Law on 16 October 2018. The law entered into force on 23 October 2018.

The definition of a trade secret in Dutch law corresponds with the definition in the above-mentioned Directive. The courts will treat trade secrets more or less the same as intellectual property rights.

Regarding licence agreements, Commission Regulation (EC) No. 772/2004 (Technology Transfer Block Exemption Regulations) defines know-how as simply 'secret, substantial and identified'. Because know-how or trade secrets are not intellectual property rights, Directive 2004/48/EC (Enforcement) as implemented into Dutch law does not apply to cases on the subject. Cases of unauthorised disclosure of know-how and trade secrets are usually dealt with as tort (such as unfair competition) or breach of contract (such as non-disclosure agreements, employment agreements or otherwise). Pursuant to case law, if the disclosing party has not made clear that the information is confidential, it cannot qualify as know-how. The confidential nature cannot be assumed merely based on the relationship between the parties.

18 Does the law allow a licensor to restrict disclosure or use of trade secrets and know-how by the licensee or third parties in your jurisdiction, both during and after the term of the licence agreement? Is there any distinction to be made with respect to improvements to which the licensee may have contributed?

Yes. The parties can and often do agree that disclosure is restricted and know-how remains confidential even after the term of the licence agreement. However, holding a licensee to such an arrangement while the know-how has meanwhile become public knowledge (through no fault of the licensee), may be in conflict with competition rules. For improvements to which the licensee has contributed, such an arrangement would only work if the licensee assigned its rights to the improvements to the licensor or if it has granted an exclusive (perpetual) licence to the licensor to use the improvements.

A specific law regarding trade secrets entered into force on 23 October 2018.

Copyright

19 What constitutes copyright in your jurisdiction and how can it be protected?

According to the Dutch Copyright Act, works of literature, science or art can be protected by copyright. This includes an unlimited variety of works, including literary, musical and audiovisual works as well as software. To qualify for protection, the work has to have its own, original character and bear the personal stamp of the author. The work must be the author's own intellectual creation and cannot be derived from an existing work. Ideas are not protected; the work must be in tangible form. Copyrights allow the author to object to the unauthorised making public or reproducing of the work, and include moral rights. Copyrights arise upon creation of the work and last for 70 years after the death of the author (or after its publication, if the author is a company).

SOFTWARE LICENSING

Perpetual software licences

20 Does the law in your jurisdiction recognise the validity of 'perpetual' software licences? If not, or if it is not advisable for other reasons, are there other means of addressing concerns relating to 'perpetual' licences?

Dutch law does not prohibit perpetual software licences. However, perpetual licences might not be preferable after the decision of the Court of Justice of the European Union (CJEU) in *UsedSoft v Oracle* (3 July 2012, C-128/11), which has been confirmed since. In that case, Oracle objected to UsedSoft's resale of Oracle licences for standard software, which licences UsedSoft had acquired from Oracle licensees (albeit in violation by the licensee of its contractual obligation not to transfer the licence). The CJEU sided with UsedSoft and ruled that Oracle had exhausted its rights to distribute the software, since it had sold the first copy of the software in the European Union. The CJEU held that if the licence has been granted for an unlimited period of time and for a one-time fee (representing the economic value of the software), such a transaction actually involves a transfer of the ownership of the software copy and, therefore, constitutes a 'sale'. As a consequence, a perpetual licence (which will have a one-time fee) will be regarded as a sale. The licensor is, therefore, better off granting a licence for the term of the agreement and at recurring fees.

Legal requirements

21 Are there any legal requirements to be complied with prior to granting software licences, including import or export restrictions?

No. Although depending on the sector and the kind of software, there may be restrictions in the area of 'dual use', when a certain component (also) has (or could have) a military use or purpose.

Restrictions on users

22 Are there legal restrictions in your jurisdiction with respect to the restrictions a licensor can put on users of its software in a licence agreement?

Parties are to a great extent free to set the conditions for a software licence. However, the Dutch Copyright Act stipulates that reverse engineering and decompiling of software is allowed insofar as necessary for interoperability of the licensed software with other applications. This cannot be excluded in a licence agreement. Furthermore, depending on the activities or processes that occur under the licence, this could give rise to privacy issues and thus fall within the General Data Protection Regulation.

ROYALTIES AND OTHER PAYMENTS, CURRENCY CONVERSION AND TAXES

Relevant legislation

23 Is there any legislation that governs the nature, amount or manner or frequency of payments of royalties or other fees or costs (including interest on late payments) in an international licensing relationship, or require regulatory approval of the royalty rate or other fees or costs (including interest on late payments) payable by a licensee in your jurisdiction?

No. There is no specific legislation on royalties, nor is regulatory approval required. The parties can contractually agree on interest for late payment and payment terms. Without such an agreement, the Dutch statutory interest rate in commercial matters as from 1 January 2019 applies (currently at 8 per cent per year) and payments between companies must be made within 30 days. For transactions with consumers, an annual rate of 2 per cent applies.

Directive 2011/7/EU to prevent payment delays in commercial agreements was implemented by the Act of 16 March 2013. The Act only applies to professional parties, not to consumers. Even though professional parties can agree upon payment terms, the Act provides that only under exceptional circumstances is a payment term exceeding 60 days allowed. When dealing with governmental bodies, the maximum payment term is 30 days and can only be extended under exceptional circumstances, but never exceeding 60 days. A creditor can claim €40 as minimum compensation for recovery costs.

Restrictions

24 Are there any restrictions on transfer and remittance of currency in your jurisdiction? Are there any associated regulatory reporting requirements?

No. There are no restrictions or reporting requirements.

In the event the licence agreement qualifies as a franchise under the (new) Dutch Franchise Act, there will be disclosure requirements that need to be respected, both in the pre-contractual phase and also during the contractual relationship. This also includes the right for the franchisee to have access to reports about, for example, its turnover.

Taxation of foreign licensor

25 | In what circumstances may a foreign licensor be taxed on its income in your jurisdiction?

If a Dutch licensor has granted licences to a foreign entrepreneur, who pays royalties to the Dutch company for this, the VAT will generally be transferred to the provider of the licences established in the Netherlands. This is only different if the foreign customer has a permanent establishment in the Netherlands. If this is not the case, the VAT will be shifted and the Dutch licensor will have to charge the VAT itself. This VAT is then declared in the VAT declaration and the same VAT declaration is immediately deducted as input tax. No Dutch VAT is charged on royalties paid abroad, the place of service is 'abroad'.

COMPETITION LAW ISSUES

Restrictions on trade

26 | Are practices that potentially restrict trade prohibited or otherwise regulated in your jurisdiction?

Yes. Within the Netherlands (and the European Union), practices that restrict trade are prohibited. Commission Regulation (EU) No. 330/2010 on vertical agreements, also referred to as the Vertical Block Exemption Regulation (VBER), provides the relevant framework for the competition law assessment of all licence agreements with an effect on trade between EU member states. The Commission Regulation on vertical agreements, inter alia, prohibits resale price maintenance as well as certain restrictions regarding the territory or group of customers that can be served. It is prohibited to limit 'passive sales' from a licensee or reseller (not being the end user), which includes sales via the internet. It also restricts the duration of a contract in the event that it contains a non-compete clause. The VBER expires on 31 May 2022. Therefore, the Commission launched the evaluation of the VBER in October 2018 to gather evidence about its functioning, together with the guidelines thereto, that will allow the Commission to determine whether it should let the VBER lapse, prolong its duration or revise it.

The Dutch competition authority announced that in due course it will pay closer attention to prohibited (price) agreements. This seems to be in line with the new approach of the European Commission that, until recently, failed to prioritise this too. Lately, the Commission fined four consumer electronics manufacturers more than €110 million because they imposed fixed or minimum selling prices on their online retailers.

Further, Commission Regulation (EU) No. 772/2004 on the application of article 101(3) of the Treaty to categories of technology transfer agreements (Commission Regulation (EU) No. 316/2014 (Technology Transfer) might apply. The latter Commission Regulation includes restrictions on exclusive grant-back obligations for severable improvements. Whether such provisions are allowed must be determined individually.

Legal restrictions

27 | Are there any legal restrictions in respect of the following provisions in licence agreements: duration, exclusivity, internet sales prohibitions, non-competition restrictions and grant-back provisions?

Yes. Pursuant to the Commission Regulation on vertical agreements, the licensor may in principle not restrict or prohibit its licensee or reseller (not being the end user) to sell or resell licences to its customers via the internet. Internet sales qualify as 'passive sales' that may not be prohibited. However, the Court of Justice of the European Union in *Coty/Parfumerie Akzente* (6 December 2017, C-230/16) ruled that a selective distribution system that is primarily aimed at maintaining the

luxury image of the products offered, is allowed, provided the resellers are selected based on non-discriminatory, objective criteria. Under such circumstances, the distributor may prohibit the reselling of its luxury products through certain online platforms that would not fit the luxury image.

Furthermore, since competition laws continually evolve and licensing arrangements can be rather specific, and also as they could both fall within the scope of the Commission Regulation on vertical agreements or the Commission Regulation on technology transfer as well as under national competition laws, each specific matter should be assessed individually.

Besides the above, in the event the licence agreement qualifies as a franchise under the (new) Dutch Franchise Act, there are requirements for a post-contractual non-compete provision and the franchise agreement also needs to include wording on the calculation of a goodwill compensation after termination. Furthermore, the franchisor will need to respect the right of consent the franchisees may have for any competing activity through a derived formula.

IP-related court rulings

28 | Have courts in your jurisdiction held that certain uses (or abuses) of intellectual property rights have been anticompetitive?

On 8 September 2016, the EU General Court fully upholding the EU Commission's decision that the Danish pharmaceutical company Lundbeck and four generic competitors had concluded agreements that harmed patients and healthcare systems. In 2002, Lundbeck agreed with these four other companies to delay their market entry of cheaper generic versions of Lundbeck's branded citalopram, a blockbuster antidepressant. These agreements violated EU antitrust rules that prohibit anticompetitive agreements (article 101 of the Treaty on the Functioning of the European Union). It is the first time that it is ruled that pharma pay-for-delay agreements breach EU antitrust rules.

INDEMNIFICATION, DISCLAIMERS OF LIABILITY, DAMAGES AND LIMITATION OF DAMAGES

Indemnification provisions

29 | Are indemnification provisions commonly used in your jurisdiction and, if so, are they generally enforceable? Is insurance coverage for the protection of a foreign licensor available in support of an indemnification provision?

Indemnification provisions are common and are generally enforceable. However, Dutch courts may always mitigate any penalties agreed upon. Insurance coverage is usually available, depending, of course, on the precise needs and risks.

Waivers and limitations

30 | Can the parties contractually agree to waive or limit certain types of damages? Are disclaimers and limitations of liability generally enforceable? What are the exceptions, if any?

Yes. Parties can contractually agree to waive or limit certain types of damages as well as maximise the amount. Disclaimers are generally enforceable unless deemed unacceptable under the given circumstances based on the principle of reasonableness and fairness. This can especially be the case if there is (serious) inequality between the contracting parties. Further, liability resulting from intent or gross negligence of the (higher) management of a company cannot be excluded or limited.

TERMINATION

Right to terminate

- 31 Does the law impose conditions on, or otherwise limit, the right to terminate or not to renew an international licensing relationship; or require the payment of an indemnity or other form of compensation upon termination or non-renewal? More specifically, have courts in your jurisdiction extended to licensing relationships the application of commercial agency laws that contain such rights or remedies or provide such indemnities?

Dutch law does not restrict or limit the right to terminate a licence agreement. However, this does not mean that a party can always terminate the agreement and even if it can, it may be obliged to respect a certain notice period or pay compensation or indemnity, or both. A contract with an indefinite term may, in principle, be terminated for convenience. This is the prevailing opinion, recently affirmed by the Dutch Supreme Court. However, under certain circumstances, a party may have to show cause to terminate the agreement. In any case, a reasonable notice period must always be observed, the length of which depends on the circumstances of the matter. Although standard practice was that courts granted notice periods of up to six to 12 months, some recent higher court decisions imposed notice periods of two to three years, even when the contract stated a shorter period. Further, the terminating party may have to compensate the other party for investments or costs made, which the other party may lose owing to the termination.

Agency

A licensing structure can, under certain circumstances, be qualified as a commercial agency relationship in the Netherlands. Important criteria to determine this are:

- Is the licensee or sub-licensor (i) a reseller or (ii) an intermediary?
- Does the licensee or sub-licensor (i) establish the reseller prices itself, or (ii) are they being fixed by the licensor?
- Does the licensee or sub-licensor (i) earn a margin between the purchase price and the resale price or (ii) a commission fee for all licences sold?
- Does the licensee or sub-licensor (i) receive the licence fees from customers or (ii) are they collected by the licensor?

The more questions that are answered with (ii), the more likely that a court will deem there to be a commercial agency relationship, in which event a goodwill compensation may be payable upon termination of the licence agreement.

Franchise

In the event the licence agreement qualifies as a franchise under the (new) Dutch Franchise Act, the franchise agreement needs to include wording on the calculation of a goodwill compensation after termination.

Impact of termination

- 32 What is the impact of the termination or expiration of a licence agreement on any sub-licence granted by the licensee, in the absence of any contractual provision addressing this issue? Would a contractual provision addressing this issue be enforceable, in either case?

Without a contractual provision, the sub-licence agreement ends upon the licence agreement ending. This may, however, result in the sub-licensor committing a material breach towards its sub-licensee, if this situation was not properly addressed in the sub-licence agreement. A

contractual provision arranging for termination of the sub-licence upon ending of the licence agreement would clarify the position of the parties from the outset and would indeed be enforceable.

BANKRUPTCY

Impact of licensee bankruptcy

- 33 What is the impact of the bankruptcy of the licensee on the legal relationship with its licensor; and any sub-licence that the licensee may have granted? Can the licensor structure its international licence agreement to terminate it prior to the bankruptcy and remove the licensee's rights?

A licensor can include the contractual right to terminate the agreement prior to the licensee's bankruptcy; such clauses are common and usually valid. Without an explicit termination arrangement in the event of a bankruptcy of the licensee, the licence remains in place and also a sub-licence will not automatically terminate in such event.

Impact of licensor bankruptcy

- 34 What is the impact of the bankruptcy of the licensor on the legal relationship with its licensee; and any sub-licence the licensee has granted? Are there any steps a licensee can take to protect its interest if the licensor becomes bankrupt?

The position of the licensee in a bankruptcy of the licensor is not entirely clear under Dutch law. There is case law regarding the position of tenants in the bankruptcy of the landlord, which has – absent of specific case law regarding licensing matters – been suggested to apply to licensing as well, although the opinions in legal literature differ. The effect of the existing case law, when applied to licensing, could be that if the licensee does not default under the licence agreement, the receiver of the bankrupt estate of licensor remains bound by the licence agreement. The receiver may, however, sell the subject of the licence (eg, software). It is questionable whether the licence follows the sale and licensee (and sub-licensor) may invoke their licence towards the third party purchasing the software, as licences only have third-party effect when registered. Licences to trademarks and patents can be registered in the respective registers, thus creating such a third-party effect, but copyright licences (which includes software licences) cannot be registered as there is no copyright register in the Netherlands. The position of a licensee or sub-licensor confronted with a bankrupt licensor can therefore – depending on the subject of the licence – be unclear under Dutch law.

GOVERNING LAW AND DISPUTE RESOLUTION

Restrictions on governing law

- 35 Are there any restrictions on an international licensing arrangement being governed by the laws of another jurisdiction chosen by the parties?

Pursuant to article 3 of Regulation (EC) No. 593/2008 (Rome I), contracting parties can choose the law of another country, but remain bound by mandatory provisions of the country to which the matter exclusively relates (eg, for two Dutch contracting parties, the territory is the Netherlands). Further, parties cannot exclude the applicable EU competition laws and other specific mandatory rules of law, such as goodwill compensation in commercial agency relationships.

Franchise

In the event the licence agreement qualifies as a franchise under the (new) Dutch Franchise Act, for franchise relationships with partners operating their franchise business in the Netherlands, it will not be

possible to deviate from the Franchise Act to the detriment of the franchisee. The Franchise Act will apply and will be mandatory insofar it protects the franchisee. It is possible to exclude the Franchise Act from being applicable to franchise (or similar) relationships with partners who operate outside of the Netherlands. However, the franchisees will have to explicitly agree with this, a deviation from the Franchise Act cannot be imposed one-sidedly.

Contractual agreement to arbitration

36 Can the parties contractually agree to arbitration of their disputes instead of resorting to the courts of your jurisdiction? If so, must the arbitration proceedings be conducted in your jurisdiction or can they be held in another?

Yes. The parties can jointly choose to submit a case to arbitration rather than to the Dutch courts. The choice for arbitration has to be made in writing. The arbitration can be conducted in a foreign country and a foreign language. Collective or class action arbitration is not addressed, unlike class action claims before a court, in the Dutch Code of Civil Procedure (DCCP).

Besides the well-known international arbitration institute for commercial disputes, like the International Chamber of Commerce (ICC) arbitration, one can also choose for arbitration in accordance with the Netherlands Arbitration Institute (NAI). NAI arbitration will generally be (much) cheaper than ICC arbitration and has a good reputation. See www.nai-nl.org/en/.

For information technology licence disputes, there is the Dutch Stichting Geschillenoplossing Automatisering, a foundation for the resolution of information and communications technology disputes. See www.sgoa.eu/english/services/arbitration/.

Specifically, for disputes in the field of international distribution (intended in the wide sense of the term, comprising agency, distributorship, franchising, selective distribution, etc, there is the recently established International Distribution Institute Arbitration Project, created in 2016 by the International Distribution Institute in collaboration with the Chamber of Commerce of Geneva and the Swiss Chambers' Arbitration Institution. See www.idiproject.com/content/idarb-idi-arbitration-project.

On 1 January 2019, the Netherlands Commercial Court was created (NCC). It is a chamber in the Amsterdam District Court, where parties may litigate before the Dutch court in the English language. A matter may be submitted to the NCC if:

- the Amsterdam District Court or Amsterdam Court of Appeal has jurisdiction;
- the parties have expressly agreed in writing that proceedings will be in English before the NCC;
- the action is a civil or commercial matter within the parties' autonomy; and
- the matter concerns an international dispute.

With this in mind, to conduct court proceedings before the Dutch courts will generally be (much) cheaper than going through arbitration and will be objective and generally of similar quality, so unless there is a specific reason to choose arbitration – for instance, when it is very important that the proceedings will not be made public or when the nature of the relationship or content is very confidential – the Dutch court will be appropriate and is often preferred.

Enforceability

37 Would a court judgment or arbitral award from another jurisdiction be enforceable in your jurisdiction? Is your jurisdiction party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards?

Regulation (EC) No. 1215/2012 applies to the recognition of foreign judgments in the Netherlands. Consequently, a judgment from another EU court is enforceable. Regarding non-EU judgments, articles 985 to 994 of the DCCP apply. Such a judgment can be executed upon approval of a Dutch court. However, if no bilateral treaty applies, the matter should be brought before a Dutch court, which will then decide upon the claim (article 431 of the DCCP). If the foreign judgment is similar to the outcome under Dutch law, the Dutch court may rule in conformity with the foreign judgment.

The Netherlands is a party to the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958. A foreign arbitration award will be enforced (as per article 1076 of the DCCP) unless there are reasons for refusal pursuant to the Convention.

Injunctive relief

38 Is injunctive relief available in your jurisdiction? May it be waived contractually? If so, what conditions must be met for a contractual waiver to be enforceable? May the parties waive their entitlement to claim specific categories of damages in an arbitration clause?

Yes. Injunctive relief is available in the Netherlands, both without the defendant being involved (ex parte) as well as between the parties (inter partes). The parties may contractually waive their right to injunctive relief, although this is rather uncommon. In fact, often when parties choose arbitration, they also include the right to obtain injunctive relief. For a (contractual) waiver to be enforceable, it must be unambiguous that the waiving party wishes to waive its right. This can be the case if the waiving party has given the clear impression that it will not invoke a certain right. However, for evidentiary purposes, we recommend that the waiver is done in writing. The right to claim certain types of damages may also be excluded.

UPDATES & TRENDS

Key developments of the past year

39 Please identify any recent developments in laws or regulations, or any landmark cases, that have (or are expected to have) a notable impact on licensing agreements in your jurisdiction (including any significant proposals for new legislation or regulations, even if not yet adopted). Explain briefly how licensing agreements might be affected.

After a self-regulatory process that led to the Dutch Franchise Code in 2016 and a previous draft franchise act, which was rejected, the Dutch Franchise Act has been adopted by the Dutch parliament and lastly by the Dutch Senate on 30 June 2020. The new Franchise Act has entered into force on 1 January 2021. From this date, new franchise agreements or renewed franchise agreements concluded after 1 January 2021 with franchisees operating in the Netherlands must comply with the mandatory provisions of the Franchise Act. Existing franchise agreements are subject to a transitional period of two years regarding specific provisions such as the right of consent, non-competition and goodwill. As of 1 January 2023, all franchise agreements, including existing agreements, must fully comply with the Franchise Act. Owing to these short timelines, franchisors will have to align their franchise agreements in a relatively short time period.

Franchisors cannot derogate from the Franchise Act in a franchise agreement even if foreign law has been agreed upon in as far as franchisees are operating in the Netherlands. When franchisees are operating outside of the Netherlands, the Franchise Act may be excluded, even when Dutch law applies to the franchise agreement.

The new Dutch Franchise Act aims to provide more balance in the relationship between the franchisor and the franchisee by offering the franchisee with statutory protection. The parties should behave towards each other as a 'good franchisor' and a 'good franchisee'. The question has been raised whether this principle adds something, as parties are already to behave towards each other following the civil law principle of reasonableness and fairness. However, what is new is the mandatory protection offered to franchisees under this new Franchise Act as well as specific provisions on (pre-contractual) disclosure obligations, right of consent, goodwill and (post-contractual) non-compete.

Coronavirus

40 What emergency legislation, relief programmes and other initiatives specific to your practice area has your state implemented to address the pandemic? Have any existing government programmes, laws or regulations been amended to address these concerns? What best practices are advisable for clients?

Regarding licensing, there is no specific covid-19 legislation. There have been several, rather casuistic cases regarding compliance with or termination of contracts concerning the pandemic. Sometimes force majeure could be invoked and, in other cases, a party could rely on the legal concept of unforeseen circumstances to enforce a change or even termination of the agreement. Unforeseen circumstances are those that have not been factored in by the parties when concluding the agreement. For contracts concluded before approximately mid March 2020, the pandemic could qualify as an unforeseen circumstance. After that date and absent specific arrangements of the parties regarding covid-19, the pandemic can no longer be relied upon as an unforeseen circumstance. In the event of unforeseen circumstances, the parties must first try to renegotiate a reasonable alternative before termination would be an option. The lower courts have adopted a principle of 'share the pain' of 'share the burden', bearing in mind the initial balance of risk as laid down in the contract under debate.

For new contracts, it is recommended to include specific language on the effect of pandemics and any government regulations or advice ensuing therefrom on the position of the parties and their compliance with the agreement.



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