INTERNATIONAL JOINT VENTURES
SESSION 3/3: KEY COMMERCIAL
CONTRACTS AND CONSIDERATIONS IN
JOINT VENTURES

DLA Piper Commercial Contracts Webinar Programme

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## Agenda

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Commercial Agreements in JV Context
Commercial Agreements in Joint Venture Context

Commercial Agreements in addition to JV Agreement

- JVA establishes the groundwork for the structure of the business cooperation
- Commercial agreements to operate the business of the joint venture
  - Joint development
  - Licensing of IP
  - Supply of products, components, equipment, materials
  - Supply of services

Threshold point of attention "3Rs" (Rights, Risks & Responsibilities)

- Clear allocation of responsibilities
- Identify business scope of JV Co and retained perimeter of each JV partner
- Who bears the risk – JV Partner? JV Co?
  - e.g. cost of a worldwide product recall due to a manufacturing failure
  - Impact of reputational risk
Joint Development Agreements
Joint Development Agreements

- Joint Development Agreements create unique challenges and decisions for contracting parties, among them:
  - Defining the purpose of the development
    - What will be developed
    - Who will do the development
    - When will the development be completed
    - What are the specifications or requirements for the joint development
  - Allocation of IP ownership for developed IP
    - Ownership with the JV or one joint venture partner
    - Ownership based on each party’s background technology/IP
    - Joint ownership
  - Handling potential IP transfer requirements between countries
  - Rights of each non-owner party for developed IP and for pre-existing or background IP both during the term and after
Jointly Owned IP

- Joint ownership of developed IP is **not** a simple shortcut
- Absent negotiated terms, jointly developed IP is likely to be jointly owned
- Jointly Owned IP comes with “default rules” that might have unintended or misunderstood consequences, including:
  - Limitations on a joint owner’s right to exploit the jointly owned IP
  - Limitations on a joint owner’s right to enforce the IP against third party infringers
  - Limitations on a joint owner’s right to grant licenses
  - Limitations on a joint owner’s right to sell its joint ownership interest
  - Obligations or a “duty to account” to the other joint owner, e.g., sharing in profits and licensing revenue from exploiting the jointly owned IP
Jointly Owned IP

- For Jointly Owned IP, default rules vary depending upon the nature of the IP at issue
- Example:

<table>
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<th>Patents (US)</th>
<th>Copyrights (US)</th>
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<tr>
<td>Each party can license to 3rd parties without consent</td>
<td>Each party can license to 3rd parties without consent</td>
</tr>
<tr>
<td>No obligation to share in proceeds</td>
<td>Obligation to account and share in proceeds</td>
</tr>
<tr>
<td>Joint owners must agree to pursue enforcement actions</td>
<td>Each party may enforce without consent</td>
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- To add uncertainty and complexity, default rules not only vary depending upon the particular type of Jointly Owned IP at issue, but vary among countries as well
Jointly Owned IP

- Default Rules for Jointly Owned IP vary by country
  - For example, joint owners of a patent can independently use such patents in Germany, France and the UK, but must account and share in the proceeds for such use while obtaining consent prior to licensing to others
  - In China, joint owners of a patent can each independently use and license the patent but must account and share in the proceeds
  - For copyrights, in China, Germany, France and the UK, there is no right to exploit without consent of the joint owners and each must account and share in the profits (provided that consent may not be unreasonably withheld in China, Germany and the UK, and there are exceptions regarding contributions to a joint work in France)
  - Enforcement rights vary further depending on IP rights at issue, creating a difficult web of different default rules
Jointly Owned IP

- Contracting around the default rules
  - The laws of most countries allow joint venture partners to “contract around” the default rules applicable to jointly owned IP.
  - Parties should consider factors such as: (i) who should bear the expense of any registration; (ii) whether one party holds a greater interest in enforcing rights in developed IP; and (iii) what the anticipated use might be for IP generated during a Joint Development Agreement.
  - If both parties wish to exploit jointly developed IP, rights can often be granted by license as opposed to giving each party joint ownership in such IP.

- Appropriately contracting around default rules adds significant length and complexity to the joint development agreement and typically requires significant, time consuming discussions and engagement between the joint venture partners and their lawyers.
Technology export/transfer issues that are faced in cross border JV arrangements

- Under cross-border Joint Development Agreements where technology or IP is “exported” (sold or licensed) there will likely be local law issues, including:
  - Export requirements (for example, whether IP is subject to certain export restrictions depending upon the nature of IP)
  - Tax and valuation considerations regarding IP that is sold or licensed across a border
  - Local IP requirements regarding the sharing and exploitation of IP for market access (i.e., requirements that IP be shared with companies that have a determined percentage of local ownership)
EU R&D Block Exemption Regulation

- Covers licensing or assignment of IP in the context of joint development and/or joint exploitation
- Creates competition safe harbor for R&D horizontal cooperation agreements in scope
- Market share safe harbors and exemption duration vary depending on whether parties are competitors
- Contains list of "hardcore" restrictions (i.e. practices deemed so serious that excluded from the safe harbor of a Block Exemption Regulation + excludes entire agreement).
  - e.g. restriction of the freedom to carry out research and development independently or in cooperation with third parties in a unconnected field or, after the completion of the project, in a connected field, limitation of output or sales, with some exceptions...
- Also contains list of restrictions not hardcore but requiring a specific individual assessment as to their compatibility, e.g.
  - obligation not to challenge after completion of the research and development the validity of intellectual property rights which the parties hold in the internal market and which are relevant to the research and development
  - obligation not to grant licenses to third parties to manufacture the contract products or to apply the contract technologies unless the agreement provides for the exploitation of the results by at least one of the parties and such exploitation takes place in the internal market vis-à-vis third parties..
EU Technology Transfer Block Exemption Regulation

- Applies only if R&D regulation does not
- Where licensor licensee to use its technology (patent, know-how, software license) for the production of goods and services
- Exempts licensing agreements between companies that have limited market power (i.e. market share not exceeding 20% for agreements between competitors and 30% for agreements between non-competitors), and that fulfill certain conditions set out in the TTBER. Such agreements are deemed to have no anticompetitive effects or, if they do, the positive effects outweigh the negative ones. Agreements that meet these conditions are therefore automatically in line with EU antitrust rules.
- Contains list of "hardcore" restrictions
  - e.g. restrictions on licensees not to sell into each other's territories; agreements restricting a party's ability to determine its prices when selling products to third parties or limiting output
- Also contains list of restrictions not hardcore but requiring a specific individual assessment as to their compatibility since they might reduce incentives to innovate
  - e.g. exclusive grant backs or assignments to the licensor of improvements of the licensed technology, obligation not to challenge the validity of the licensor's intellectual property…
License Agreements
Making IP available to the JV Company

- For the purpose of this analysis we assume the business of the JV will be carried out through a **separate legal entity** / vehicle (as opposed to a pure contractual relationship): the JV Co.
- The main document governing the formation and the operations of the JV Co will be the **JV Agreement**.

One (possibly both) of the Parties will want to **contribute** certain **intellectual properties** to the JV Co to enable it to undertake the proposed business, exploiting the knowledge and resources of the licensing partner(s).
IP License Agreement(s)

- Focus on **licensing of intellectual property** to JV Co (contribution - or assignment - of intellectual property to a JV Co has been covered in previous webinars).

- The overall regulation of the license of the intellectual property to the JV Co are generally governed through **both** the JV Agreement and the License Agreement(s).

  The specifics of the transaction and the jurisdiction will determine the relationship between the two documents, taking into account:
  - The licensor may not be the party to the JV Agreement;
  - The JV Agreement and / or the License Agreement may require filing or registration (with different authorities);
  - Applicable laws may be different

- We will focus on the contents of the **License Agreement(s)**
IP License – Key Terms (1/3)

Subject Matter of the License

• Identify the object of the IP to be licensed: needs to be specific (to the possible extent)
  • Trademarks
  • Know-how (or commercial "system")
  • Technology / Patents (rare, in commercial / retail JVs)
  • IT systems / software (CRM, stock management, etc.)

Licensing Party

• Identify the owner of the IP to be licensed
• Where IP is registered (trademarks, patents): registration to be valid in the jurisdiction where the JV Co will operate (in some jurisdictions: could be a condition for payment of royalties)

Extent of the License

• Exclusive / Non Exclusive
• Sub-license allowed?
• Territory (or markets / applications)
• Duration

Consideration

• Free of Charge;
• Lump-Sum / Royalties / Mixed Systems → possible tax implications
IP License – Key Terms (2/3)

Limitations of Use
- Licensing Party may require to define conditions of use of the licensed IP to protect its value:
  - Restriction on sourcing of products or components or services;
  - Restrictions on sale of products / provisions of services subject to compliance of specific rules or procedures;
  - Use of trademarks / sale of products / provisions of services subject to the products / services meeting certain criteria / quality threshold / approvals;
  - Management of recalls or other hazards

Specifications
- JV Co (as Licensee) may require to define specifications / yields of the licensed IP, for instance as condition or criteria to pay royalties;

Improvements
- Who will own intellectual property developed by the JV Co?
- Automatic licensing of IP developed by the Licensing Party?

Maintenance, Enforcement
- Licensing Party to maintain:
  - control over maintenance of the IP registrations
  - control over enforcement of the IP rights against third parties infringers
IP License – Key Terms (3/3)

Other Common Terms

- Confidentiality (between the parties and / or employees);
- Non-compete obligations;
- Restrictions on liability (towards licensee and / or towards third parties)

Termination

- Breach by JV Co (Licensee), including use outside the approved scope
- Cross termination with provisions of the JV Agreement; generally both ways:
  - termination of the License Agreement in case of breach by local partner of the JV Agreement or deadlock or change of control in the JV Co;
  - termination of the JV Agreement in case of breach / termination of the License Agreement.

Consequences of Termination

- Change of corporate name? Transfer of domain names? Timing?
- Continued use of the IP by the JV Co (no cross termination in JV Agreement)?
- Disposal of branded products / merchandise

Applicable Law, Dispute Resolution

- Should be the same as the JV Agreement?
Purchase and Supply Agreements
Contractual Relationships in Joint Ventures

- Joint venture agreement / shareholder agreement
- Internal purchase/supply agreements
- Purchase/supply agreements with third parties
Hot Topics Purchase and Supply Agreements

- Allocation of investments/third party supplies between the parties
- Managing third party suppliers
- Exchange of information
  - Mind competition law ("spillover effects")
- Internal sales
  - Volumes and capacities / take-or-pay and other mechanisms
  - Exclusivity / preferred supply (but mind competition law)
  - Internal pricing
    - Fixed price, market price, price formulas, cost-plus approach
Hot Topics Purchase and Supply Agreements

- Risk allocation
  - Currency fluctuation, increase in costs, decrease in prices etc.
- Liability towards other partner
- Dispute resolution
- Term and termination
  - In particular "good cause"
(Joint) Going to Market

- Distribution concept
  - Joint sales / joint and several liability
    - Proportionate allocation of profit/loss
  - Subcontractor model
- Branding
- Agreements regarding external pricing (but mind competition law)
- Liability towards third parties (including recall and product liability)
- Right of first refusal / right of last call / step in right
Services Agreements
"Internal" or third party services

Third party provided services

- Common feature of many JVs
- Little difference to the negotiation of a services agreement in a non-JV context

"Internal" services

- Services provided by one of the JV partners to the JV
  - e.g. manufacturing services; logistics services; back-office services; development services
- Services provided directly to the JV's customers (on behalf of the JV)
  - e.g. "front of house" management services; level 1 technical support services
Operational Considerations

Where are services to be provided?

- Compliance with territory specific regulatory requirements
- Service provider’s own resources
- Interface with third party supply chain
  - e.g. third party logistics support for manufacturing services

Pre-contract due diligence

- All of the above
- Taxes (including withholding tax) and duties
- Foreign investment control
- Currency controls

Human Resources

- Location of relevant personnel
- Secondment arrangements
Commercial Considerations

Contribution
- Valuation of non-cash contribution
  - Service provider to receive an income stream?
  - Value of services to be capitalised - in exchange for equity?

Exit
- Business critical service?
- Contingency plan
- What happens if.....

How do you avoid divorce?
- Stay married!
  - performance monitoring/early warnings
  - effective contract management
  - remediation rights
  - dispute resolution
Key Terms

Do SLA's work in the context of a JV?
- Relevance of price adjustments
- Link to the JVA

Is termination (of the services agreement) an option?
- Cross default to JVA termination
- Creation of "perverse incentives"

Divorce provisions
- Can the innocent partner source suitable alternative service provision?
- Pre-emption rights
- Exit valuation
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Conclusion
Resources – Global Contract Laws and Going Global Guide

- **Global Contract Laws** ("GCLs") is DLA Piper’s online "handbook" that provides users with summary answers on day-to-day contract law questions that international businesses face when trading in international jurisdictions. GCL covers 110 topics in 19 different topic areas (e.g., laws regarding e-commerce, liability, disputes, agency and distribution) across 20+ countries. It is useful for a quick summary of the law in a particular area for a country or for comparing countries.  
  *Take a look at:* [http://www.dlapipercontractlaws.com](http://www.dlapipercontractlaws.com)

- Our **Going Global Guide** covers the corporate basics in 30 key jurisdictions across the Americas, Asia Pacific, Europe and the Middle East. We touch on a wide range of corporate issues relevant to joint ventures including establishing a corporate presence and choice of entity, liability considerations, tax presence and tax filings, capital requirements, the formation process, director, officer and shareholder requirements, registration processes, office lease processes and possible exit strategies.  
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