Terminating Licences of IP Rights (India)

by *Shailendra Bhandare*, *Reshma Vaidya Gupte*, *Ashwin Bishnoi*, *Tarang Shashishekar*, *Anisha Chand* and *Yatharth V. Singh* with Practical Law *Intellectual Property & Technology*

Practice notes | Law stated as at 01-Apr-2022 | India

A Practice Note discussing the key legal issues that may arise under Indian law when terminating a licence of intellectual property rights. This Note forms part of a global suite of country-specific resources helping in-house lawyers and private practice attorneys to understand whether, when, and how to terminate an IP licence under the laws of India and provides measures to manage the associated risks.

Termination is part of the life cycle of every Intellectual Property (IP) licence. Most businesses license intellectual property rights, whether as licensor, licensee, or both. While there are different categories of IP rights, common issues can arise when terminating any IP licence. Terminating a licence incorrectly can expose a party to a claim for breach of contract, so understanding how to navigate these issues can be crucial.

The governing law of the licence is significant, as the rules and procedures for terminating IP licences vary between global jurisdictions. There are unique features of the laws in India such as the patent licensor being prohibited from including clauses in a patent licence preventing the licensee from challenging the validity of a patent, issues arising out of insolvency laws, and strict procedures for registering a licence in respect of registered trademarks.

Further, the *Copyright Act*, 1957 restricts the term and territory of copyright licences. If there is no express mention of term and territory in the licence agreement, then the term is limited to five years and the territory to India.

In addition to the above, the *Patents Act*, 1970 (Patents Act) also prohibits certain other *restrictive covenants*.

This Note considers the most common scenarios for IP licences:

- Expiry.
- Types of termination.
- Effects of termination.
- Insolvency.
- Antitrust issues.

It also explains:

- How to serve a notice of termination.
- The steps to consider following termination.

For more information on the licensing of IP rights in different jurisdictions, see *Practice Note, Licensing of Intellectual Property Rights*.

Expiry

Parties may be required to take the following steps when an agreement expires:

- Discuss renewing the agreement.
- Draft and agree to a transitional services agreement to manage issues such as customer warranty claims and responsibilities for product liability.
- Settle commercial aspects and obligations due between the parties.
- Notify any relevant authorities that the licence has expired such as:
    - IP offices, in cases where the licences have been registered (see *Cancellation of the Licence at National Registers or Offices*);
    - courts, where the licensee is a party to any litigation involving the licensed IP;
    - the registrar of Companies if the company name used in the licence has changed; and
    - regulatory authorities.
- Notify third parties, the trade, the public, and other entities that may be impacted by the expiry. This includes sub-licensees and third-party contractors.
- The licensee must stop all use of the licensed IP except where:
    - the licence provides for a limited sell-off period or a buy-back option to dispose of stock of products incorporating the licensed IP (see *Effect of Termination on Stock of Licensed Products Held by the Licensee*); or
    - the licence expires due to the loss of IP right protection (such as patent expiry).
- Follow post-expiry non-compete provisions (see *Obligations that Survive Termination*).
- Identify and evaluate any improvements or joint developments (based on the licensed IP), then confirm the ownership of any IP rights protecting them, based on the wording of the licence or agreement between the parties. This is particularly relevant to technology licences or joint ventures.
- Comply with any additional formalities in the licence agreement. For instance, an obligation requiring the licensee to certify that it has stopped using the licensed IP.

The parties are likely to have similar obligations and considerations following termination of an IP licence.

Circumstances Where a Party Can Terminate a Licence

A party can typically terminate a licence in the following circumstances:

- If parties agree to terminate the licence (Section 62, *Indian Contract Act,* 1872 (Contract Act)).

- For valid reasons including breach of contract by the other party.
- Impossibility of performance of the licence agreement or any dependent agreement.
- Termination on a reasonable period of notice.
- If the licensed IP is no longer protected.
- Change of control of one of the parties.
- If either party goes into liquidation, insolvency, or bankruptcy (Section 168, the *Insolvency and Bankruptcy Code* (Bankruptcy Code)).
- If a court grants a winding-up order against any party.
- If a receiver, trustee, or a similar officer is appointed to administer either party's business or assets.
- If any government or local authority takes over, acquires, or nationalises a party's management or business.
- If the licence specifies triggers allowing a party to terminate (see *Termination Under the Terms of the License*).

Termination on Reasonable Notice

Indian law recognises termination on reasonable notice if the licence has to be terminated before the stipulated term. If a dispute arises on the length of the notice period, courts can consider the impact of termination on:

- The public, especially in cases where termination impacts access to basic necessities such as medicines.
- The licensee's ability to maintain their business investments.
- Shareholders.

If the licence contains an express right to terminate by giving reasonable notice, see *Termination for Convenience on Written Notice*.

Termination by Agreement

Parties can agree to terminate the licence agreement. In these cases, the parties should comply with the following formalities as good practice:

- Draft and agree to a transitional services agreement to manage issues such as customer warranty claims and responsibilities for product liability.
- Settle commercial aspects and obligations due between the parties.
- Notify any relevant authorities that the licence has terminated, such as:
    - IP offices, in cases where the licences have been registered;
    - courts, where the licensee is a party to any litigation involving the licensed IP;
    - the registrar of Companies if the company name used in the licence has changed; and

    - regulatory authorities.

- Notify third parties, the trade, the public, and other entities that may be impacted by the termination. This includes sub-licensees and third-party contractors.
- The licensee must stop all use of the licensed IP except where the licence provides for a limited sell-off period or a buy-back option to dispose of stock of products incorporating the licensed IP.
- Follow post-expiry non-compete provisions.
- Identify and evaluate any improvements or joint developments (based on the licensed IP), then confirm the ownership of any IP rights protecting them, based on the wording of the licence or agreement between the parties. This is particularly relevant to technology licences or joint ventures.
- Comply with any additional formalities in the licence agreement. For instance, an obligation requiring the licensee to certify that it has stopped using the licensed IP.

Termination for Breach

In India, parties can terminate the agreement for breach of licence under general contract law provisions.

The parties can classify the breach into categories, for example:

- Material breach.
- Non-material breach.

Different remedies may be available to a party, depending on the categorisation of a breach. For instance, a licence may provide that a party can immediately terminate if there is a material breach (instead of providing a cure period or claiming damages). (*Jindal Steel And Power Limited vs M/S. Sap India Pvt. Ltd (Delhi High Court*).)

A licence may apply higher damages or a higher indemnity cap for a material breach than for a non-material breach.

If the agreement does not clearly specify what a material breach is and the available remedies, the relevant court may consider the facts and award appropriate remedies to the innocent party.

Termination Under the Terms of the Licence

Parties can terminate under the terms of the licence agreement if they comply with any procedure it sets out.

In certain cases, termination can be automatic. However, it is still good practice for the terminating party to notify the other party that termination has occurred. Inclusion of a list of particular triggers does not necessarily exclude other triggers.

Termination for Convenience on Written Notice

Parties typically include an express right to terminate the agreement by giving reasonable written notice.

Termination Following a Change of Control of the Licensee

If there is a change in control of the licensee, then typically the licensor will have a right to terminate the licence. The parties should include this in the licence agreement as a trigger for termination. The licensor may have discretion as to whether to terminate or continue the licence.

Alternatively, the licensor may seek to renegotiate the licence with the licensee to factor in the new owner of the licensee. The parties should sign an addendum or an amendment agreement to make the renegotiated terms binding.

Termination due to the Invalidity or Expiry of the Relevant IP Rights

Once an IP right expires or becomes invalid, the owner cannot claim exclusivity over the licensed IP. This will generally terminate the licence. There could be exceptions, as in a licence under a registered trademark can survive the invalidation of the registered trademark, becoming a licence under common law trademark rights (an unregistered trademark).

There are legitimate circumstances where a licensor can require the licensee to continue to make payments to the licensor beyond the term of the licensed IP. For example, a technology licence where the licensee wants to continue to use the associated know-how even though the patent has expired.

Further, this situation could also arise in case of partial invalidity of some patents in a portfolio licence, where the parties could choose to amend the terms of licence (especially commercials) for the remaining valid patents.

Antitrust Issues

In competition law, licensing agreements are usually considered vertical agreements covered under Section 3(4) of the Indian Competition Act, 2002 (Competition Act). They provide for an enterprise operating in the upstream market (licensor) to licence its IP to another enterprise in a downstream market (licensee).

Further, Section 3(5)(i) of the Competition Act specifically provides for an exemption where IP holders may prevent infringement or protect their current or future IPs through **reasonable** and **necessary** conditions under various IP legislation.

The Competition Act does not explicitly provide a specific exemption for conduct falling under Section 4 of the Competition Act, which covers possible abuse of a dominant position. Implicitly, however, such analysis is necessary to determine whether there is abuse. While the Competition Amendment Bill, 2020, seeks to extend such IP exemption to Section 4, this has not yet made its way into the Competition Act.

Specifically, regarding termination of IP licenses, the Delhi High Court in *Monsanto Biotech v. CCI (2020 SCC OnLine Del 598)*, observed that the termination conditions of a licensing contract would not be considered reasonable under Section 3(5) of the Competition Act if they both:

- Are too harsh.
- Harm the licensee disproportionately.

The Competition Act only prohibits such conditions in IP licences if they can result in an appreciable adverse effect on competition (AAEC). The Competition Commission of India (CCI) might consider such clauses harmless in a scenario where the licensor does not hold significant market power.

Further issues can arise if a licensor:

- Imposes non-compete provisions after termination of the licence.
- Requires payment of licence fees for an expired IP right as a condition to obtaining a new licence under another IP right.
- Creates a perception in the trade where it is only appropriate to buy spare parts manufactured by the licensor (despite the expiry of the IP rights).

(See *Shamsher Kataria v Honda Siel Cars & Ors* (Competition Commission of India, and appealed to Competition Appellate Tribunal, High Court and now stayed by the Supreme Court).)

However, the Patent Act provides a list of restrictive conditions that are prohibited, which can mitigate such issues (Section 140, Patents Act).

To navigate these issues, parties should seek separate advice on antitrust laws before finalising the licence terms.

Termination if the Licensee Challenges the Validity of the Licensed IP Rights

It is common for IP licenses to provide for a no-challenge clause. This clause restricts the licensee from challenging the validity of the licensed IP rights.

However, section 140(1)(iii)(d) of the Patents Act provides that any provision in a patent licence agreement that prevents a party from challenging the validity of a patent is unlawful and void. Therefore, a no-challenge clause is not enforceable for patents in India.

Licensors generally reserve the right to terminate the licence if the licensee challenges the validity of the licensed IP. As with no-challenge clauses, section 140(1)(iii)(d) of the Patents Act voids any termination trigger tied to the licensee challenging the validity of a patent.

Termination due to the Insolvency or Bankruptcy of the Licensee

A termination trigger linked to the insolvency of the licensee may conflict with the spirit of the insolvency process: providing an opportunity for the licensee to revive itself. The Supreme Court of India has held that the termination of a contract by a third party which is central to the success of the insolvency process and where such termination would result in the corporate death of the corporate debtor, cannot be undertaken during a moratorium period operating in connection with the debtor's insolvency. (Supreme Court order dated 9 March 2021 in the matter of *Gujarat Urja Vikas Nigam Limited Vs. Mr. Amit Gupta & Ors. In Civil Appeal No. 9241 of 2019*.)

The Supreme Court of India has also directed bankruptcy tribunals to restrain third parties from terminating contracts only if those contracts are central to the success of the insolvency proceedings or necessary to keep the corporate debtor as a going concern (Supreme Court order dated 23 November in the matter of *TATA Consultancy Services Limited v. Vishal Ghisulal Jain, Resolution Professional of SK Wheels Private Limited Civil Appeal No 3045 of 2020*).

Separately, the Bankruptcy Code specifies that contracts for **essential goods and services** relating to a corporate debtor, cannot be terminated during an operating moratorium period. This is subject to a limited exception where the company in insolvency fails to pay the dues arising from the use of such services or goods post insolvency.

Therefore, Indian insolvency laws may prevent a licensor from exercising a trigger for termination based only on the licensee's insolvency. However, this depends on:

- The facts and circumstances of each case.
- The importance of the licence in connection with the licensee's business and its revival as part of the ongoing insolvency resolution.

Bankruptcy courts may therefore prevent the termination of the licence if the licensee or an insolvency practitioner can establish that the licensee cannot continue to carry on its business as a **going concern** or conclude its insolvency resolution without the continuation of the licence in question. When addressing this matter, bankruptcy courts look at whether:

- The licensee's business substantially depends on the licence and the continuation of the licence is central to the success of the resolution process.
- Termination would affect the licensee's resolution or revival plan during the insolvency process or result in its "corporate death."
- The licensee has committed any other material breach of contract (and whether they can remedy it).
- Termination would affect the supply of essential goods and services in respect of the licensee undergoing insolvency resolution (and whether the licensee has been paying the dues arising from the supply of those goods and services underlying such a licence during the moratorium period).
- The business operations of the licensee and the role and value attached to such IP for the licensee.

Role of the Insolvency Practitioner

The insolvency practitioner exercises the powers of the suspended board of directors and works under the supervision of the committee of creditors (comprising banks and financial institutions). An insolvency practitioner must attempt to maintain the business of the corporate debtor as a "going" concern. They are required to comply with all applicable laws in the discharge of their duty, which would include ensuring that the corporate debtor complies with its contractual obligations. Consequently, the insolvency practitioner is bound to fulfill the terms of any licence or agreement in place for a licensee under insolvency and cannot unilaterally terminate or amend the terms of such agreements.

An insolvency practitioner cannot unilaterally amend the terms of a contract and can only terminate or modify the terms of such a contract under its terms.

In limited circumstances, the Bankruptcy Code permits an insolvency practitioner to make an application to the bankruptcy tribunal to reverse avoidance transactions (that is preferential transactions, undervalued transactions, transactions defrauding creditors, and extortionate credit transactions) undertaken by a corporate debtor in a prescribed look-back period prior to the commencement of insolvency. If on an assessment made by the insolvency practitioner, a licence agreement appears to have been entered into by a licensee in the look-back period to enrich another entity either at its own cost or at the cost of its creditors, then the practitioner may apply to the bankruptcy tribunal for both:

- The avoidance or the reversal of such an arrangement.
- The disgorgement of benefits that have accrued under such an arrangement.

While licence agreements may contain express termination triggers tied to the insolvency of a licensee (or an ipso facto clause), the validation by a bankruptcy tribunal of any termination exercised by the licensor during the insolvency of the licensee depends on the facts and circumstances of each case.

The licensor can protect themselves by:

- Including obligations on the licensee to disclose such situations beforehand.
- Conducting periodic audits and background checks on the licensee.
- Shortening the licence term with an option to renew. This may allow for the licence to expire naturally, so that termination is not needed.
- Requiring licensees to notify or disclose any defaults occurring under agreements entered into between the licensee and its lenders as well as key operational counterparties.

Termination due to the Insolvency or Bankruptcy of the Licensor

The courts may prevent a termination if the licensor can show that the continuation of a licence is key for it to continue to carry on its business as a **going concern** after going through the insolvency process.

Termination may not be beneficial to the licensee as the licensee still has to keep paying licence fees and it may prefer to continue using the licensed IP despite the insolvency. However, if the licensee determines that the insolvency impacts the value of the licensed IP (for example, by tarnishing the reputation associated with a licensed trademark), then they should include express provisions that allow for termination if the licensor becomes insolvent. Termination will not be automatic (see *Termination due to the Insolvency or Bankruptcy of the Licensee*).

The licensee can use the protections stated under *Termination due to the Insolvency or Bankruptcy of the Licensee*. A licensee can also use escrows to continue to access IP materials, when the licensor is insolvent. For instance, in software escrow agreements, a licensee negotiates with a licensor to deposit the source code of the licensed software in escrow where it can be accessed if insolvency impacts the operation of the licence.

Termination for any Breach

A clause allowing termination for "any breach" should specify the procedure parties need to follow. These include:

- Notice procedures.
- Definition of what amounts to a breach.

If the agreement is silent as to what amounts to "any breach" or specifies that "breach" alone triggers a right to terminate, then the court would consider the various factors listed under *Termination for Material Breach*.

It may be appropriate to include a cure period for the breach (a time window for the party in breach to cure the breach).

Termination for Material Breach

A clause allowing termination for material breach is similar to a clause for termination of "breach." However, unlike a non-material breach, the clause may provide for either:

- Immediate termination.
- A shorter cure period.

Parties usually define terms such as "material breach" or "substantial breach" in the licence. This definition should specifically identify those clauses, if breached, that would amount to a material breach.

If the term material breach is not defined in the contract, the relevant court or tribunal will determine whether the breach is a material breach depending on various factors including:

- The main purpose of the contract and whether the breach goes to the very root of the contract.
- The parties' intent.
- The impact of the breach on the innocent party.
- Whether the breach can be cured.
- Comparing the breach to the standard in section 39, Indian Contracts Act 1872 (refusal to perform or a party putting themself in a position where they cannot perform their obligations).

The court in *M/S. Unikol Bottlers Ltd. vs M/S. Dhillon Kool Drinks* noted that the power to terminate a contract is a drastic power and a subject that the court can decide upon (justiciable). There are various conditions governing the judicial discretion as to whether to allow termination or not, such as:

- Whether the breach is such that it goes to the very root of the contract, destroys its foundation, or deprives the other party of substantially the whole benefit of the contract.
- Whether it will lead to unjust enrichment of the party seeking to terminate the contract.
- How far the performance of the contract by the party in breach has gone and what the ratio of the failure by that party to the performance of the contract already made by it.
- Whether the party seeking termination of the contract for a breach, can be compensated with damages for that breach.
- Whether the term breach of which is complained of has been specified with express precision.
- Whether the term breach, is a condition, warranty, or an intermediate term. If it is an intermediate term, whether the severity of the breach should lead it to termination of the contract or not. The court will further consider the consequences of the breach while deciding whether the particular term is a condition, a warranty, or an intermediate term.
- Whether the acts or conduct of the party in breach amount to an intimation of an intention to renounce or altogether to refuse performance of the contract.
- The consequences of the termination to the party in breach compared to the consequences to the injured party, and whether in balancing the conflicting interests, it will not be more just and fair to refuse rescission or termination of the contract.

- When a clause gives the right to terminate the contract for breach of any term, whether the term was particularised with precision specifying any particular requirement, and if so, whether breach of that term goes to the root of the contract (destroying its foundation), depriving the other party of substantially the whole benefit of the contract.
- Whether the breach is strictly covered by the terms of the licence.

Termination for Repeated Breaches

A clause that allows termination for repeated breaches should specify both:

- The minimum number of breaches notified.
- The time window within which those breaches must occur for the non-breaching party to terminate the agreement.

For example, it may say three breaches notified by the other party during the term of the agreement or two breaches within a window of 12 consecutive months.

It is also helpful to specify whether this right to terminate would still be available even if the breaching party cured their earlier breaches within any cure period.

Perpetual or Irrevocable Licences

Indian law does not define the terms perpetual or irrevocable in the context of IP licences. Labelling a licence as "perpetual" leads to ambiguity and interpretation disputes. This label could mean either:

- That there is no scope for termination at all.
- That the licence lasts indefinitely but can be terminated for breach or under other triggers.

The "irrevocable" label could mean that there is no right to terminate the licence during its term. This leaves the parties with only financial remedies such as damages.

The "irrevocable" and "perpetual" labels may not be appropriate for licences under IP rights such as patents, registered designs, or copyright. These IP rights will expire, generally terminating the licence (see *Termination due to the Invalidity or Expiry of the Relevant IP Rights*).

To reduce the chances of disputes, parties should generally avoid using these "irrevocable" and "perpetual" labels (or define them fully). If the parties intend that a licence cannot be terminated under any circumstances, for example, because it covers technology that underpins a key project, then this should be set out in the licence, the parties should remove any inconsistent termination provisions, and confirm that other remedies are available for breach (for example compensation, damages, or specific performance). If the parties intend that a licence continues indefinitely, until either party terminates it, then this should be set out in the licence.

While in practice, parties do enter into perpetual and irrevocable licences in India, another school of thought is that a licence by its nature is terminable as a fair right to the IP owner, since a perpetual or irrevocable licence may be construed as a creation of ownership right with the licensee.

Partial Termination of a Hybrid Licence (Patent and Know-how)

In India, parties can partially terminate a hybrid IP licence. However, to avoid disputes and minimise risks, parties should clearly state:

- The scope of the partial termination. Parties should identify which part of the IP licence has been terminated and which part is still in effect.
- The consequences of the partial termination. Specify whether the licensee has obligations to stop using some of the IP.
- The effect of the partial termination on the consideration and any royalty payments due to the licensor.

Remedying a Breach

There is no automatic right to remedy a breach under the relevant Indian laws. So, the party in breach will only have the right to remedy a breach if the licence expressly states it.

However, the other party has discretion to allow the breaching party to remedy the breach. It is good practice to document a concession such as this, for example, any deadline for remedying a breach.

Giving Notice of Termination

Normally, the licence agreement sets out the formalities parties need to comply with when giving a notice of termination of a licence.

Generally, principles of natural justice should be followed (see *Hindustan Petroleum vs M/S.Super Highway Services (Supreme Court)*).

Contents of the Notice of Termination

The notice of termination should include:

- The relevant provisions in the licence agreement that trigger the right to terminate. It can also include any earlier opportunities to remedy this breach (or other breaches) that the party terminating the licence provided.
- The date when the termination becomes effective. It should state whether the termination is immediate or will occur at the end of a notice period.
- Specific details of the actions or omissions amounting to a breach of contract (where relevant). This should include dates and other particulars.
- Details of any outstanding payments that are due.
- A detailed description of any losses the terminating party has suffered as a result of any breach.
- Instructions reminding the other party to comply with the post-termination obligations (*see Obligations that Survive Termination*).

See *Air India Ltd. vs. GATI Ltd (Delhi High Court)* for further discussion of termination notices.

Saving Defective Notices

A defective notice of termination may render the termination ineffective or invalid unless the party terminating the licence can show that following the rules of natural justice was not possible because of the acts of the other party (*Hindustan Petroleum vs M/S.Super Highway Services (Supreme Court)*).

If a party sends a defective notice of termination, they can send another notice with the defects corrected. This may postpone the effective date of termination.

Other Solutions Following a Defective Notice

There are no other possible solutions for a defective notice. See *Air India Ltd. vs. GATI Ltd (Delhi High Court)* for further discussion of an allegedly defective termination notice.

When Termination Takes Effect

The effective date of termination depends on:

- The specific clause the terminating party is relying on to terminate the agreement.
- The date of termination specified in the notice.

For instance, certain clauses may allow immediate termination of the agreement after the issue of a notice. In these cases, termination will take effect on the date the party gave notice assuming it was valid. Where parties need to give a specific notice period, termination will take effect when that notice period ends.

A party can withdraw a notice of termination, provided the termination has not taken effect.

Waiving a Right to Terminate

A party does not usually lose or waive its right to terminate the agreement. However, if a party acquiesces in a breach by the other party or delays in communicating the termination, it may lose the right to terminate or timely terminate on account of that specific breach.

Consequences of Wrongful Termination

If a party wrongfully terminates a licence, the other party can:

- Restrain (and reverse) the termination unless the contract is of determinable nature and cannot be specifically enforced.
- Sue the terminating party for damages and compensation.

(*Indian Oil Corporation Ltd. v. Amritsar Gas Service & Ors (Supreme Court).*)

Alternatives to Termination

If a party breaches its contractual obligations, instead of terminating the agreement, the other party can:

- Claim damages, an indemnity, or other remedies available by law.
- Try to resolve the issue according to any dispute resolution procedures available in the licence agreement.
- Try to resolve the issue through discussion and negotiations with the other party.
- Renegotiate and amend the terms of the agreement.

The first two options may lead to disputes, while preserving the other party's rights under the licence. As a result, it is worth considering whether termination is the cleaner option, unless there are strong commercial reasons for preserving the business relationship.

Steps to Take After Termination

Obligations that Survive Termination

Parties should list the obligations that survive termination in the licence agreement. These can include clauses involving:

- Confidentiality.
- Covenants relating to IP rights.
- Representations and warranties.
- Indemnities.
- Post-termination obligations.
- Governing law and dispute resolution.

These clauses should be in an **inclusive** list with a general clause stating that:

> "The termination of this agreement does not terminate or prejudice any provision (including the above clauses) which by its nature is intended to survive termination."

If the agreement is silent on the survival clauses, the following situation could arise:

- If there are specific statutory provisions which permit survival of certain clauses, such clauses would survive. For instance, an arbitration clause in the agreement would be considered as an independent agreement, which would survive the termination.
- Clauses in the agreement that specify obligations to exist beyond the term of the agreement would survive due to the language used in the specific clause (although not specifically set out in the survival clause).
- For others, such as claims arising from certain clauses, these may survive as per the provisions of the Indian Limitation Act 1963.

- There could also be disputes if the none of the above apply, as one party may claim that certain clauses are no longer applicable after termination.

Return and Deletion of Know-how

The licence agreement should include a robust clause regarding the return and deletion of know-how. This should require the licensee to:

- Immediately stop using the licensed know-how and technology.
- Return or destroy, depending on what the licensor prefers, all materials incorporating the licensed know-how.
- Delete all materials from the computer systems and networks of the licensee.
- Provide a certificate confirming compliance with such obligations within a specific window of time after termination.

The licensor may want to negotiate the inclusion of a clause allowing them to audit the licensee's compliance with these obligations before the issue of a compliance certificate.

Effect of Termination on Stock of Licensed Products Held by the Licensee

During licensing arrangements, parties often provide for a limited sell-off window post-termination when the licensee can dispose of its remaining stock of licensed products.

Subject to the terms of the licence agreement, the licensor may also:

- Purchase the existing stock.
- Seek destruction of the remaining stock.

If the IP can be removed from the product (such as removing a trademark), then the licensor may allow the licensee to dispose the remaining stock through alternate channels (such as "rejects" or "seconds") at a lower price and with a reduced warranty.

Effect of Termination on Sub-Licences

Generally, a sub-licence automatically terminates when the main licence terminates. This is usually specified in both the sub-licence agreement and the main licence agreement.

However, in certain cases, parties may agree that the licensor can step into the role of the licensee, by assuming the rights and obligations under the sub-licence if the main licence terminates.

In some cases, the licensor may allow the sub-licensee to continue to use independently developed improvements or developments, derived from the IP under the main licence, beyond the term of the main licence.

Preparing for a Disputed Termination

In relation to trademark and copyright licences, it may be advantageous for the **licensor** to avoid including an arbitration clause. Giving the court's jurisdiction over disputes is beneficial to the licensor given the flexibilities the registered owner of those IP rights receives under the *Trade Marks Act* 1999, the *Copyright Act*, 1957 and the *Code of Civil Procedure* 1908. These acts permit the IP owner to file actions at a jurisdiction where the IP owner has principal place of business or at jurisdictions where the defendant carries on business.

Parties should include broad inclusive language in any dispute resolution or arbitration clause to capture all types of disputes arising from an IP licence.

This clause should cover:

- Governing law.
- Exclusive jurisdiction of courts.
- Where applicable, where an arbitration will take place and any jurisdictional implications.
- The number of arbitrators and how to appoint them.

For more information on arbitration, including the use of institutional arbitration centers, interlocutory relief, and enforcement of arbitral awards, see *Country Q&A, Arbitration procedures and practice in India: overview*.

Parties can include a simple or multi-stage dispute resolution procedure. This should set out a procedure for the parties to give notice of a dispute and provide substantive responses. This can include the names or positions of authorised representatives from each party who can attempt to negotiate a resolution to the dispute, as well as a procedure to escalate the dispute.

Before the onset of a dispute or before serving a notice of termination, a party should:

- Carefully finalise the grounds for termination.
- Collate sufficient evidence (including correspondence, accounts, records, inspection reports, audits, and relevant statements from customers, suppliers, or distributors) to support its position in a possible dispute.
- Instruct or have on standby an expert (particularly for a patent or copyright licence).
- Calculate damages and losses.

Cancellation of the Licence at National Registers or Offices

If the licence has been recorded with a relevant IP office in India, parties must notify that authority of the termination of licence.

Parties usually include further assurance clauses in the licence agreement to assist with this process.

Other Issues

Parties should consider the following issues before termination:

- Any implications under:
    - tax laws;

    - competition law;
    - corporate laws such as related party transactions; or
    - the Patents Act, specifically provisions relating to proving working of patents. The termination of the licence may stop the proof available through the licensee to prove that the patent/invention has worked.
- Government interference in certain cases, especially in the pharmaceutical sector where the government may consider a compulsory licence in public interest.
- Handling of registrations for co-brands.

Avoiding Pitfalls

To avoid the pitfalls associated with terminating an IP licence, parties should take the following measures:

- Clearly identify provisions of the agreement related to material breach.
- Ensure that clauses related to termination and the effect of termination are exhaustive. For instance, clauses related to triggers for termination must clearly identify specific situations and the process for termination.
- Avoid wrongful termination. The notice of termination must provide a reasonable period and all necessary aspects set out in *Contents of the Notice of Termination*.
- Prepare a litigation strategy in case of a post-termination dispute.
- The party terminating the licence should be ready for any actions the other party files to stall the termination process. This includes applications for interlocutory relief, which may be ex parte. The terminating party can defend against this by filing an application (referred to as a "caveat") with the appropriate court. This is a request for:
    - prior notice from the other party about such applications; and
    - an opportunity to be heard before the court grants interlocutory relief (rather than allowing the other party to obtain this relief ex parte).
- The party terminating the licence should try and take possession of all its proprietary materials before sending the notice of termination since the counterparty may refuse to return them following termination.
- Periodically audit and check the ownership of improvements and joint developments.
- Consider the implications of insolvency and antitrust laws to avoid any post-termination issues.
- Carefully consider clauses related to automatic termination such as change of control in the notice of termination. If the party most likely to obtain control is a competitor, then the licensee should place more emphasis on clauses relating to IP protection and confidential information.
- Agree on unsold stock to avoid any issues in the market after termination.
- For licenses labelled as perpetual or irrevocable, consider the issues discussed under *Perpetual or Irrevocable Licenses*.

END OF DOCUMENT