Third Party Intellectual Property

A common misconception is that ownership of IP rights associated with a product gives an automatic right to make and sell that product. However, IP rights such as patent and design rights are best viewed as 'negative' rights, which allow the owner to prevent other parties from using the invention, mark or design. They do not provide an automatic right to practice the invention or to use the design.

When developing a new product, it is therefore important to check whether any third parties hold IP rights that could prevent you from carrying out your intended commercial activities and, where necessary, clear the way by ensuring that you will not infringe such IP rights. Checks for potentially relevant third party patent or design rights are generally referred to as "freedom to operate" (FTO) studies. Checks and analysis for prior trade mark rights involve a wholly different set of parameters and concerns, and are not the subject of this briefing note. They are however extremely important to carry out before a new product is launched. For further advice on trade mark clearance, please contact a member of the trade marks team.

Failure to perform adequate FTO studies can have serious consequences, primarily because it may mean that you become aware of relevant third party IP rights only at a late stage in the development of your product, and perhaps even after launch. This can make it difficult (or impossible) to clear the way in a cost effective manner. In a worst case scenario, if your product infringes IP rights held by a third party you may face costly and time-consuming legal action. This carries the following significant commercial risks:

- Uncertainty: as to whether you will be permitted to continue your commercial activities
- Reputational damage: if the third party can force you to cease supply to your customers
- Financial loss: if you are required to pay damages or an account of your profits to the third party
- These risks can be minimised by conducting appropriate FTO studies during your product development programme. The IP profession can advise on the extent of FTO searching that you may wish to undertake, carry out the searching and analysis for you, and advise on options for dealing with any potentially relevant IP hurdles uncovered. These matters are discussed in more detail below.

Tips for FTO searching and analysis

Conducting a proper search and reviewing the results takes some time, so aim to start work as soon as possible after you have designed the relevant product and you are reasonably certain that you intend to commercialise it.

Remember that IP rights are territorial, and you should therefore define your search strategy with reference to the countries in which you plan to be commercially active. For example, if you are only planning to sell a product in the EU, there is no need to search for IP rights in the USA.

Remember also that many IP rights are time-limited. For example, patents typically have a term of 20 years from the application filing date, not including any adjustments or extensions that may apply. A search strategy can therefore be designed to exclude rights which will have expired before your planned commercial launch date.

If budget is a major concern, then there are a number of free databases which allow keyword based searching for registered IP rights (e.g. www.espacenet.com for patents). However, for a comprehensive search there is no substitute for commissioning a search professional to investigate registered IP rights.

Given full details of your intended activities, and often working in close partnership with a patent or trademark attorney, a search professional will design the most appropriate search strategy for your circumstances, taking into account timescale and budgetary constraints. The searcher will then typically produce a set of results in which IP rights are ranked by their potential relevance to your intended activities, with those more likely to be relevant flagged for further analysis by the patent or trade mark attorney.

After that analysis is complete, the final output of a FTO study might be the happy conclusion that no registered IP rights exist which are relevant to your commercial plans. More usually, though, there will be a number of pending or granted IP rights that could constitute an infringement risk. These rights need to be considered further.

For pending IP rights (i.e. rights which have not yet been granted) it may be sufficient simply to monitor their progress at regular intervals. Some rights will never grant, or will grant with a narrowed scope which may no longer be a concern. An attorney will be able to advise on the likelihood of either outcome for a given pending IP right. Should it appear that a potentially relevant pending IP right is likely to proceed to grant, it may be possible to intervene. For example, it may be possible to file observations to draw the attention of the examining Office to issues of validity that they may not have noticed.

For granted IP rights, there are also some relatively simple additional steps which can be taken and which may reduce your level of concern. For example, just because an IP right has been granted, this does not mean that it remains in force. IP rights typically require annual maintenance fees to be paid in order to remain in force in each country. If these have not been

paid, the IP right may already have lapsed and can be disregarded.

It is also worth bearing in mind that the precise interpretation and scope of an IP right can vary depending on the jurisdiction, and so you may wish to consult an attorney in the specific country in which an IP right exists to obtain an in-depth view on its relevance to your activities in that country. Finally, you might choose to instruct an attorney to conduct a more detailed analysis of the validity of an IP right, in case there are reasons why it may not be valid in a relevant respect, which might not have been noticed by the Office that granted it.

Having completed an FTO study which identifies potentially relevant third party IP rights, you will then need to decide what to do next.

Dealing with the results

There are four basic options:

(1) Ignore the rights

Ignoring potentially relevant IP rights can be very risky. It can sometimes be the right business decision to launch at risk, but the management team needs to understand the risks involved. In one case involving pharmaceuticals, a company launched a generic version of a drug at risk and were on the market for only 24 days. They were required to pay damages of US$ 442 million and legal costs of US$ 0.9 million following litigation for patent infringement.

(2) Secure a licence or acquire the rights

If the rights holder is open to negotiation, then obtaining a license or acquiring full ownership of the rights can provide a speedy solution to the risk of infringement. Having your own IP portfolio can assist with negotiations, since you may be in a position to offer a cross-licence as part of any deal.

(3) Design around the rights

If it is possible to modify your plans such that the IP rights at issue are no longer relevant, then this may be an attractive way to proceed. Consider securing your own IP to cover your modified product, process or brand, so that competitors will be forced to find a different (and hopefully less convenient) solution to the problems you have overcome.

(4) Challenge the rights

It is possible to challenge the validity of registered IP rights before a Patent Office or a Court. There are various options here, depending on the budget available and the timescale within which a result is required.

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