

Offshore Energy Law

Prioritising Intellectual Property from the start: a case study

Typically, a single floating production project will involve multiple technologies, multiple parties and multiple countries, and so the protection of and compliance with intellectual property ("IP") rights can be highly complex. As a result, IP issues are often parked in the "too-hard" basket, to be dealt with some other day by some other person. This can, however, be a crucial error: if invalidity or infringement issues are identified down the line, the potential impact on the project (both operational and financial) is enormous.

For example, incorporating third party IP into the design of the technology without the owner's authorisation can result in the suspension or cancellation of a project and the payment of substantial damages. Conversely, if you take active steps to own, protect, enforce and commercialise your own IP from the start, this can be extremely valuable, and allows you to block competitors from using the same technology, or obtain an additional income stream through licensing fees.

It may help to consider a practical scenario illustrating the many IP issues that may arise. Here, an American gas company (Engas Inc) has acquired a field located off the coast of Scotland and intends to commission a third party to operate the field using an FPSO. Kursch GmbH, a German company wins that tender. Engas obtains the services of a UK consultant, Tom Wilcox, to produce the FEED. Engas and Kursch commission Yien Shipbuilding to build the FPSO hull in China and to deliver it to the UK, where the topside and main equipment will then be fitted. A Canadian manufacturer, Hesper Ltd, is contracted to produce the turret mooring system (**TMS**) in Canada, and then to deliver it to the vessel in the UK.

A number of issues need to be considered.

What IP is likely to exist and who would typically own it?

- Tom Wilcox is responsible for creating the FEED and therefore ought to be the original owner of copyright in the documents and drawings, design rights, and trade secrets. As a consultant, this IP is owned by Tom unless he assigns those rights to another. So Engas should enter in a contract with him prior to commencing work which assigns the rights to Engas and prevents Tom from threatening the validity of those rights through early disclosure. Engas will then need to enter into a licence with Kursch that gives Kursch the ability to sublicense the FEED IP for the purpose of this project.
- Yien Shipping will produce detailed hull designs and improvements to the FEED, incorporating patent, copyright and design rights, and trade secrets. The agreement between Kursch and Yien must include a licence allowing Yien to use the underlying FEED IP, and must identify which party is to be the owner of any new IP created by Yien in the course of the project.
- Hesper Ltd will manufacture the TMS, incorporating copyright, design and patent rights, and trade secrets. The TMS may involve Hesper's own IP (which then must be licensed to Kursch for the purposes of this project) or IP provided by Kursch. Either way, the agreement between the two parties must specify which IP is used, and the terms of the relevant licence.
- Engas is running the project, but is not necessarily creating much IP itself. To maximise its investment, it would want control of all of the underlying IP through assignments and licences with Kursch and the other contractors.
- Kursch is operating the FPSO and would likely own copyright and confidential information. It will also need to obtain sufficient licences to use all IP

required to operate the FPSO, including repairs. It will also have access to Engas's confidential information as part of the invitation to tender.

- **Third parties** may own IP rights that are used in the project. It is important to identify these IP rights from the start, including by conducting full Freedom to Operate (**FTO**) searches to ensure that the concept design does not infringe any third party rights in all relevant territories. Even if the concept involves an improvement or modification to existing third party IP, this may infringe that party's rights, or may be subject to assignment to that third party based on the old IP licence.

What happens if a third party owns a patent over the TMS?

The TMS is manufactured in Canada, and delivered and used in the UK, so both Canadian and UK patents would be infringed. To avoid a claim down the line, Engas, Kursch and Hesper should seek to design around the third party patent, or alternatively seek to manufacture and use the TMS in a different location where the patent is not protected. Alternatively, if the IP owner is willing, a licence may be negotiated.

If not, the damage arising from a successful infringement claim can be substantial. Engas and Kursch should reduce their exposure through comprehensive warranties and indemnities in their agreement with Hesper, although Hesper will seek to limit such provisions.

Note that as the TMS does not enter the USA, Germany or China, patents in those countries would not be infringed.

What if the shipyard provides improvements?

Improvements on existing IP still require licences, but may also be separately patentable or registrable. You should confirm that the licence of the old IP does not mean that the improvements are assigned to that licensor. If not, consider whether Yien, Kursch or both companies jointly will own the IP in the improvements, whether any licences or cross- licences will be granted for the use of that IP and, if so, on what terms.

Yien should also consider how to protect and enforce this new IP. For example, records must be kept of its innovations and new designs, and systems must be in place for evaluating these and deciding whether to apply for a patent or design registration. Internal company processes should be in place to educate the R&D and design teams about how to identify and protect IP (including the risks of public disclosure) and the value in doing so. Taking these steps from the start will help to maximise the commercial value of the project work by preventing competitors from using the technology, establishing an income stream through licensing the IP, and/or using it as a bargaining chip in cross-licence negotiations.

What happens after the project is completed?

If Kursch then wins a contract to operate a field in Brazil, are there IP restrictions which may prevent Kursch using the same vessel? This depends on a variety of IP matters including (a) the result of new FTOs run to identify any third party IP infringement risk in Brazil, and (b) whether the terms of the existing agreements and licences allow Kursch to use the other parties' IP in this way.

Conclusion

As demonstrated above, a FPSO project can involve numerous IP rights in numerous countries owned by numerous parties. For these reasons, it is critical that IP rights are reviewed, and any issues confronted, from the outset of a project, when there is still an opportunity to protect your own IP or adapt the technology or project in a way that can circumvent infringement risks before it is too late.



Rob Jacob
Partner

T: +44 20 7809 2072
E: rob.jacob@shlegal.com

Rob is a partner in London specialising in intellectual property.