

Offshore Energy Law

The Power of IP Licensing

Intellectual property rights are often overlooked in construction contracts in the oil and gas sector, with most parties believing they are simply 'somebody else's problem'. However, using third party intellectual property can be an expensive hobby. For example, incorporating third party intellectual property into the design without the owner's consent can result in the suspension, or worse, the cancellation of the project.

This also means that a party who owns essential intellectual property rights can either block competitors from using the technology, or dictate the terms of the licence and charge a high royalty fee before granting access.

A prime example is LNG cargo containment systems. Historically, there were only a few systems to choose from, with GTT's NO 96 system being used in the majority of LNG vessels. As a result, GTT has managed to secure a lucrative income stream through licencing to third parties the right to use the system. If the same technology is to be incorporated into a new FSRU or FLNG project, a new licence or amendment to the existing licence may be needed.

Irrespective of who owns the intellectual property, there will be other parties that will need to use it in order to fulfil their obligations under the contracts.

Consider a typical offshore LNG project; the FEED contractor needs to produce the FEED documentation, each of the EPIC contractors need to produce the work to the FEED design and the operator will need to use the work in the operation of the vessel.

It will therefore be essential to ensure that all of the relevant parties have the right to use the intellectual property to fulfil these obligations.

Typical terms of the licence to consider include:

Scope

What uses are permitted? Will the use be limited to a specific vessel or a specific project? What about a vessel that is later modified for use in a different project? The licensee will need to ensure the licence covers all uses required by them (and their sub-licensees) to fulfil their obligations under the various contracts. If they can obtain wider licences, this can be extremely beneficial. Conversely, the licensor will want to keep the scope narrow to ensure that the licensee has to come back for a new licence (with new fees) for future projects.

Once the project has been concluded and the vessel is no longer required for that purpose, it is common for the vessel to be modified so it can be used in future projects in different locations. However, the scope of the underlying IP licences will typically be limited to specific projects or uses. As a result, new licences will be required.

Territory

Intellectual property rights are territorial in nature. For example, a UK patent can only prevent third parties from using the protected technology, without the patent owner's consent, in the UK (or on a vessel with a UK flag). What this means for licensing purposes is that the licensor can only grant a licence to use the technology in the countries where its intellectual property is protected. If the vessel is being built in a country where there is no IP protection, a licence is not required. However, the vessel will not be able to enter the territory of a protected jurisdiction without first obtaining a licence.

Accordingly, the operator of an LNG facility needs to consider in which jurisdictions the vessel is to be built and operated, and whether a licence is needed for those jurisdictions.

Term

For how long can the licensee use the intellectual property? Should it be able to use it indefinitely or should it be limited in time (say the end of a specific project)? Any limitation must not prevent the licensee fulfilling its obligations in relation to the project.

Sub-licensing

Will the licensee be able to sub-license the intellectual property? For example, can an EPIC contractor sub-licence to the sub-contractors? If not, how will they fulfil any obligations for which the intellectual property is required?

Termination

A licensor's ability to terminate a licence can bring a project to an abrupt stop, so the licensee should think carefully before agreeing to wide termination provisions. It will also be important to carefully consider what happens in the event of the insolvency of the licensor.

Improvements

The parties always argue about who should own improvements over existing intellectual property. The licensor will expect to own all rights in any improvements made to its intellectual property portfolio.

However, it is often the licensee that has gone to the time and effort to develop the improvement and it is incredibly galling to have to go back to the licensor and pay for a licence to use the technology it developed itself.

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As the consequences of infringing third party intellectual property rights can be expensive and draconian, it is much better to carefully consider intellectual property rights from the outset of a project.

Those intending to make use of intellectual property will need either to negotiate with the relevant intellectual property owners to ensure that you have the right to use the technology or go to the expense of designing around the intellectual property to ensure safety from infringement claims in the future.

However, if you happen to be the owner of the key intellectual property rights, you not only have the power to dictate terms, but can also realise a profitable income stream for years to come.



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