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Best efforts to obtain a license

Prof. Jacques de Werra



**UNIVERSITÉ
DE GENÈVE**

FACULTY OF LAW



Outline

- **(1) “Best efforts” in the IP ecosystem**
- **(2) “Best efforts” in (IP) contracts**
- **(3) “Best efforts” in Art. 17 (Directive 2019/790)**

(1) « Best efforts » in the IP ecosystem

- “Best efforts” is not a standard legal test in the IP ecosystem (art. 17 para. 4: “best efforts” test to avoid liability)
- IP ecosystem is generally binary (objective test):

infringement



No infringement

(1) « Best efforts » in the IP ecosystem

- « Efforts » made to obtain a contractual license for the compulsory licensing of patents:



=> Art. 31 (b) TRIPS :“(b) such use [i.e. compulsory licensing] may only be permitted if, prior to such use, the proposed user has made efforts to obtain authorization from the right holder on reasonable commercial terms and conditions and that such efforts have not been successful within a reasonable period of time”

- Bilateral process between patent owner and potential licensee initiated by the licensee => “efforts” to negotiate (of licensee) without risk of liability

(1) « Best efforts » in the IP ecosystem

Regulation (EC) No 816/2006 of 17 May 2006

(compulsory licensing of patents relating to the manufacture of pharmaceutical products for export to countries with public health problems [art. 31bis TRIPS])

- Art. 9 para. 1: “The applicant shall provide evidence to satisfy the competent authority that he has made efforts to obtain authorisation from the rights-holder and that such efforts have not been successful within a period of thirty days before submitting the application”.

(1) « Best efforts » in the IP ecosystem

Efforts to obtain a contractual license before the potential grant of a compulsory license

- *Substance* : negotiations about « reasonable commercial terms and conditions » (art. 31(b) TRIPS)
- *Process* (timing): « efforts have not been successful within a reasonable period of time » (art. 31(b) TRIPS) + national case law (see e.g. German case law BGH X ZB 2/19, of June 4, 2019))

(1) « Best efforts » in the IP ecosystem

- Efforts to negotiate a **FRAND license on Standard Essential Patents (SEPs)**:

CJEU Huawei / ZTE of July 16, 2015 (Case C-170/13):

1. Notification by owner of SEP of infringement
 2. Expression by licensee of “its willingness to conclude a licensing agreement on FRAND terms”
 3. Submission by owner of SEP “a specific, written offer for a licence on such terms, specifying, in particular, the royalty and the way in which it is to be calculated [...]”
- Efforts to avoid liability but complex (tech.) products

(2) « Best efforts » in (IP) contracts

UNIDROIT Principles of International Commercial Contracts (2016)

- Distinction between duty to achieve a specific result and duty of best efforts (art. 5.1.4)
- Best efforts: “To the extent that an obligation of a party involves a duty of best efforts in the performance of an activity, that party is bound to make such efforts as would be made by a reasonable person of the same kind in the same circumstances” (art. 5.1.4 para. 2)

(2) « Best efforts » in (IP) contracts

- « best efforts » obligations are frequent in (IP) contracts and are also frequently litigated

See e.g. Australian case: Framish Holdings Pty Limited v Force Industries Pty Limited [2007] VCC 680

- What are « best efforts » contractual obligations ?
- Is their use recommended ?

... And the answer is ...

(2) « Best efforts » in (IP) contracts

CONCLUSION

Today, the law of best efforts is a hopeless muddle. Indeed, it is surprising that best efforts provisions find their way into contracts at all.

Rob Park, Putting the Best in Best Efforts, University of Chicago Law Review 73, no. 2 (Spring 2006), 705-730, at 729

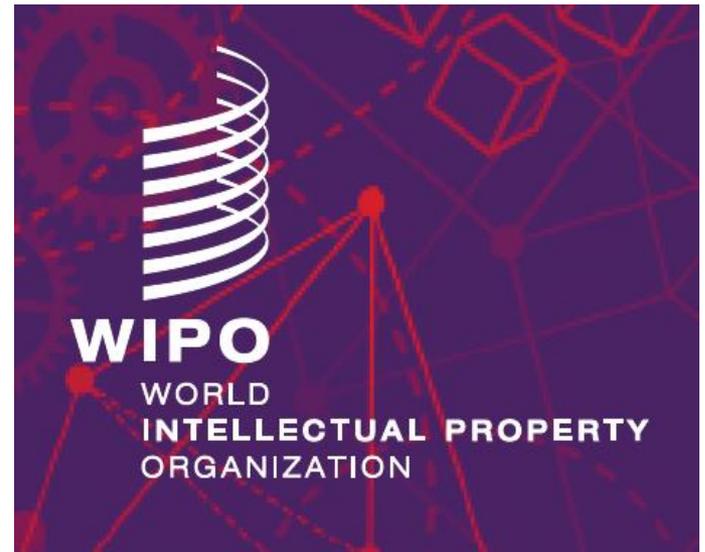
(2) « Best efforts » in (IP) contracts

- « Avoid using terms like [...] ‘use best efforts’. [...] Instead of using a phrase having vague and variable meanings, define in the agreement exactly what steps would satisfy the intended ‘best efforts’ »

(p. 17)

**Successful Technology
Licensing**

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(2) « Best efforts » in (IP) contracts

« best efforts » and pre-contractual obligations of negotiating parties to act in good faith

- Principles of European Contract Law (PECL, 2002)

=> Article 2:301: Negotiations Contrary to Good Faith

“(2) [...] a party who has negotiated or broken off negotiations contrary to good faith and fair dealing is liable for the losses caused to the other party”.

(3) It is contrary to good faith and fair dealing, in particular, for a party to enter into or continue negotiations with no real intention of reaching an agreement with the other party”.

(3) « Best efforts » in Art. 17

- Complexity of the obligation to make « best efforts to obtain an authorization » under Art. 17 para. 4 (a) of Directive 2019/790

=> Obligation to make « best efforts » imposed on the content-sharing service providers for content uploaded by their users => « **triangular** » **situation** (users/platforms/rightholders)

≠ standard bilateral process in patent compulsory licensing / FRAND SEP licensing

(3) « Best efforts » in Art. 17

- Art. 17 para. 5: **proportionality** => (non-exhaustive) elements for determining whether the service provider has complied with its best efforts obligations under Art. 17 para. 4:
 - a. « Type of works » uploaded by the users (art. 17 para. 5 (a));
 - b. « Availability of suitable and effective means and their costs for service providers » (art. 17 para. 5 (b))=> How to apply these elements to the obligation to « make best efforts to obtain an authorization » (under Art. 17 para. 4(a)) ?

(3) « Best efforts » in Art. 17

a. « Type of works » uploaded by the users (art. 17 para. 5 (a))

- Uses of works for «quotation, criticism, review» (art. 17 para. 7 (a))
and
- « use for the purpose of caricature, parody or pastiche » (art. 17 para. 7 (b))

=> No obligation to make best efforts to obtain an authorization for these « types » of works (?)

=> Who can decide (quickly) what is a licit quotation or parody (=> ADR ?) ?

(3) « Best efforts » in Art. 17

b. « Availability of suitable and effective means and their costs for service providers » (art. 17 para. 5 (b))

- « suitable and effective means » to establish best efforts to obtain an authorization => pressure / « obligation » to submit to mediation (under Art. 13 para. 1) and/or ADR (art. 17 para. 9) ?
- Art. 13 para. 1: “Member States shall ensure that parties facing difficulties related to the licensing of rights when seeking to conclude an agreement for the purpose of making available audiovisual works on video-on-demand services may rely on the assistance of an impartial body or of mediators. [...]”

(3) « Best efforts » in Art. 17

b. « Availability of suitable and effective means and their costs for service providers » (continued)

- « suitable and effective means » to establish best efforts to obtain an authorization => putting in place automatized systems for the negotiation & conclusion of license agreements with the rightholders ?

=> Smart (licensing) contracts / blockchain ?

(3) « Best efforts » in Art. 17

« Best efforts » obligations

- *Substantive* elements: offer of reasonable (=?) licensing terms (+ compliance with obligations, e.g. transparency, art. 19)
- *Procedural* elements: who shall do what and when ?
How long shall the negotiation process last in order to meet the « best efforts » standard ?

Take aways

- « Best efforts » is a complex legal standard
 - Complexity is increased in the context of Art. 17 para. 4: not a standard bilateral process & broad diversity of content (e.g. quotation, parody)
- => Need to define what steps shall satisfy the “best efforts” obligations (=> guidance under Art. 17 para. 10)
- => Need to develop quick and efficient processes for contract negotiations / conclusion (smart contracts) & for dispute resolution (ADR for « Massive Online Micro Justice (MOMJ) »)

Thank you
& for your attention !



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jacques.dewerra@unige.ch