STEPHENSON HARWOOD'S COP26 INSIGHTS SERIES

Green shoots: intellectual property and the road to net zero

The background to and a key goal of COP26 is that the world needs to halve emissions over the next decade and reach net zero carbon emissions by the middle of the century if we are to limit global temperature rises to 1.5 degrees.

Two of the main ways to do this is to accelerate the transition from coal power to clean power sources and also to accelerate the transition to zero-emission vehicles. Both of these aims requires significant investment in new technologies.

Against this backdrop, there have been a number of significant steps forward in the development of clean power technologies over the past few years. This has been driven by a number of factors, including increasing public awareness of the need for zero-emission solutions, government grants and subsidies, and a promise of energy security.

Key areas in which we have seen significant developments of late, concern wind and hydrogen power technologies. In the wind space, although there have been important incremental developments, for example in materials science and blade technology, there have been recent step changes with the development of floating offshore wind. The hydrogen sector, whilst still nascent, has seen significant advancements in terms of commercialising the technology for both the generation of 'green' hydrogen (hydrogen from zero-emission sources through advanced electrolysis) and its use, notably in the integration and use of fuel cells in various transportation sectors, including aviation.

These technologies, like any other, require careful consideration of the protection of intellectual property in and arising from them, and also its future exploitation. This article touches briefly on a few of the issues we have found relevant to clients in this space.

Preliminary thoughts on IP and the need for accelerated development and use of green technologies

In most cases, intellectual property allows the creation of legal monopolies in its subject matter. At first glance, therefore, IP might appear to sit uneasily aside the COP26 objectives, in that access to protected technology will be limited to those with resources to develop their own or licence-in existing technology.

This article is too short to consider in depth the philosophical pros and cons of intellectual property, but the potential downsides to the 'monopoly' issue can be offset by three factors. First, IP protection is a real incentive to get companies innovating. Research and development costs can be extremely high, often with low chances of successfully developing a product capable of commercialisation. IP protection therefore allows innovators to recover those costs. Second, in some industries patents claiming an invention that must be used to comply with technical standards must be licensed on 'FRAND' (fair, reasonable and non-discriminatory) terms. This reduces the risk of a single patent owner holding an entire market to ransom. Third, IP such as patents are time limited. Therefore, to the extent that patent protection is sought today, most of the technology will likely be free for use by 2041 (so still within the 2050 deadline).

Ensure the ownership of developments is agreed in advance

It is common for new technologies to be developed in collaboration with multiple parties, as often no single party is able to 'bring everything to the table', whether that be in the form of expertise, finance, equipment or logistics. This applies equally in the case of new and renewable energies.

It is absolutely imperative that parties agree workable terms as to who will own what IP arising from a particular project. Often parties agree that the party creating or developing IP will own it.

However, this still gives rise to the obvious question later down the line of "who has created what"? In that regard, it is important to set the scope of obligations and responsibilities up front in the agreement and to seek to agree what falls within the scope of each party's arising IP to avoid conflict.

Beware: joint ownership

Often the parties will agree that part or all of IP arising under a project will be owned jointly by them. This often depends on the particular case and the relative strengths of the parties' negotiating positions.

Generally speaking, we advise against this kind of arrangement for various reasons.

First, without an agreement to the contrary, co-owners under English law cannot assign, license, or mortgage/charge the IP without the other owner's permission. Parties are unlikely to agree a blanket permission up front to do this and, therefore, these restrictions on jointly-owned IP provide a party the ability to stop the other's free exploitation of its own IP. Whilst such a situation might not be envisaged at the outset of a project, if there is a breakdown in relations then it will be an important 'lever' for a party to use in a dispute.

Second, co-ownership potentially causes practical issues with enforcement. In particular, there will be questions of who controls the litigation decisions and who bears the costs.

These issues can be dealt with by agreement, but those agreements can be complex and difficult – or impractical - to negotiate in advance. The rules relating to ownership may also differ in different jurisdictions.

Third party rights and infringement risk

With the huge efforts going on in this sector, it can often be the case that multiple unrelated parties are developing similar technologies at the same or similar times. In addition, parties may find that pre-existing solutions from other sectors can be applied in a new way.

With that in mind, it is extremely important that those seeking to commercialise technologies in this sector consider undertaking searches to check for pre-existing IP rights which may block or delay work on a project.

In the field of patents and designs, these are known as freedom to operate searches and, generally speaking, consist of searches of the relevant registers around the world to check whether any pre-existing rights might conflict with the work being done and technology developed under the project. In the field of trade marks, these are called clearance searches.

If what is being done or developed falls within the scope of any of those rights, there is an infringement risk. Remedies for infringement go beyond just financial damages: injunctions are available to physically stop a party using or working on a particular technology, or even to require that it transfer possessions of infringing products to the patent owner or have them destroyed.

Take, for example, floating wind farms. If a foundation is found to infringe a patent where it is operating (e.g. above the continental shelf of the UK), an injunction could be granted to stop all use of the infringing foundations there. Without then moving the entire project elsewhere (which would likely be impractical) the entire project would then be in jeopardy without a royalty being agreed with the patent owner to use it or a workaround to the patent being found. If a licence to use the patent were then sought, the infringing party would be at the mercy of the patent owner.

IP rights do not have international force (with a few exceptions). This means that risks must be considered on a country-by-country basis. It also means that multiple simultaneous infringement actions can be brought against a party at the same time in different countries, with different outcomes being reached in each case.

We have found from running and co-ordinating such multi-jurisdictional disputes (which can involve 10s of different countries at the same time) for clients that devising a global strategy from the start is essential. These disputes can also be extremely costly, reinforcing the importance of the freedom to operate searches discussed above.

Warranty protection

Warranties (contractual promises) that technology being used or developed does not infringe a third party's are very common. However, they only act to regulate the liability of the parties to the agreement. What they do not do is prevent a third party from bringing an infringement claim against the user of infringing technology.

This means that even if the owner or operator of the technology has warranty protection against the developer/designer, that warranty protection will only allow the owner/operator to sue for damages for breach of warranty if infringement is later found. Such claims are difficult to bring and, importantly, do

not stop the rights owner from bringing a court claim and (for example) seeking an injunction to prevent the use of the technology or requiring its destruction.

Further, infringement claims would be brought before national courts in each country and would be entirely separate to any warranty claim.

Conclusion

The development of new and renewable energy technologies is fundamentally important in accelerating the move to zero-emission power generation and transport. When doing so, however, developers and operators must remember that IP rights still apply to such projects, irrespective of their importance to fighting climate change.

Stephenson Harwood's Intellectual Property team works with a large number clients in the energy and renewables sector, helping them to protect, enforce and safely commercialise key intellectual property assets. Please do get in touch with us if you would like to discuss anything in particular.

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