



# Foresight

## Transformation: Using IP for Competitive Advantage: Drilling into the Issues

Faced with low oil prices and increasingly challenging geographical locations, there is now, more than ever, a greater incentive for companies in the oil and gas sector to innovate. Innovation often includes developing new technologies and products which can bring increased efficiencies and give companies an edge over their competitors. These technologies and products are often protected by intellectual property (IP) rights and so it is essential that businesses understand how to protect their IP assets, to ensure they can gain the full benefits of their innovations.

In this article we delve into some of the key legal issues companies in the industry should be aware of in respect of IP, and highlight some common pitfalls to avoid.

### IP Protection: Patents

Patents have become an increasingly popular means of IP protection in the oil and gas sector. While it may seem obvious, one important factor you should be aware of is the need to keep your new invention confidential until a patent application has been filed. A patent can be invalidated at any time (even after grant) if it can be shown that there has been prior use/disclosure of the patented invention, and this strategy has been used on numerous occasions by companies in the industry to challenge patents obtained by their competitors and so obtain access to innovations and technologies.

Keeping your new invention confidential may sound easy but in practice can prove harder than you might think. Prior

use or disclosure of a patented invention takes place where:

- the disclosure is *made available to the public*; and
- the disclosure is *enabling* i.e. it contains sufficient information for a skilled person in the field to ascertain how the invention works.

In the absence of confidentiality obligations, a single prior disclosure in a public place prior to filing will render the patent invalid!

This presents difficulties for companies in the oil and gas sector where there may be a greater need to demonstrate new products and technologies to customers and potential customers in order to win contracts and where testing often needs to take place *in situ* (for example, on an oil rig). A written confidentiality agreement should be put in place with customers and potential customers and with any third parties involved in the testing process before any testing/demonstration takes place. Patent applications should be filed as soon as possible, and certainly before any commercial sale takes place.

### IP Ownership: Service Providers

By law IP rights generated by employees in the course of their employment reside with their employers. However the oil and gas industry has typically relied much more heavily than other business sectors on independent subcontractors and consultants. Subcontractors and consultants do not qualify as employees and so in the absence of clear IP wording in their service contract, any IP they generate in the

course of providing their services does not automatically belong to the company they are working for. This often comes as a surprise to those companies. Unfortunately these sorts of issues have a habit of coming to light at crucial points in time (such as in the midst of a corporate acquisition) when fixing the issue can be a time-consuming and costly, particularly where the individual have made a contribution to valuable innovations and technologies.

It is therefore prudent to try to avoid these issues by ensuring that your service contracts with subcontractors and consultants include clear provisions for ownership and management of any IP generated by the service provider. This should be accompanied by appropriate confidentiality undertakings and an obligation on the subcontractor/ consultant not to use your IP for any other purpose or in the course of any work they do for other companies either concurrently or subsequently (particularly important in the current client where contractors may be moving on). If you intend to enter into significant transactions in the future such as a sale process, then it may be worthwhile undertaking an audit to ensure you own all IP rights in your most valuable assets before the process commences, to give you sufficient time to identify and correct any lingering IP issues.

### Collaborations

Collaborations are an increasing trend in the oil and gas sector, as we highlighted in a previous issue of Transformation. From an IP perspective, it is important to exercise caution from an early stage of collaborative arrangements which are focussed on developing new technologies and ways of working. Ideas and concepts which are debated during the initial discussions may go on to form the basis of future patent applications and so ensuring you have non-disclosure agreements in place from the get-go can be a wise course of action.

When it comes to formalising a collaborative arrangement, both stakeholders should be clear as regards the IP they are bringing to the table and the extent to which the other party is able to use it, both during the collaborative activities and thereafter. During the collaboration, the parties may develop new IP and the contract should detail how this new IP will be owned and what rights each party has to use it.

Special care should be taken in relation to jointly generated technologies. Where no provision is made in the contract as to who will own IP generated jointly, by law the IP is likely to be jointly owned. In the UK, jointly-owned rights cannot be exploited without the consent of both owners, which can become restrictive and difficult to manage especially if is a likelihood of competition between the parties at a later stage. In other countries the position in relation to ownership, use and licensing of jointly owned IP may be different. Given the global nature of the industry, it will be important to understand the different IP regimes which will apply to ensure you have all necessary rights to use and exploit any joint IP.

### Licensing

A key way to benefit from innovation by other market players is to enter into a licensing arrangement. We have seen an increased use of these types of arrangements in the industry recently allowing new and existing players to gain access to products and technologies for use and exploitation in different market segments or different territories, without the significant cost, risk and time associated with developing completely new technologies.

A licence, whilst it has the benefit of ready access to an existing proven technology, comes with certain obligations to the licensor and so appropriate thought needs to be given to the terms of the licence agreement. Important provisions to look out for are:

- i. whether the licence gives rights to all companies which your corporate structure access to the products and technologies;
- ii. whether you will have access to future developments of the licensed technology/ product; and
- iii. the circumstances in which the licensor can terminate, especially termination without cause on short notice, which could have far-reaching consequences for the licensee.

The principle of “buyer beware” applies and you should also ensure you check that the licensor actually owns the IP to which it is granting a licence and that it has appropriate patent or other IP protection in place in the relevant territories. Warranties to this effect should be sought from the licensor.

### Conclusion

Over recent years we have seen an increase in the level of attention being given to IP issues by clients in the oil and gas industry. The current challenges have increased the focus on innovation and we are seeing more and more clients coming forward with proposals for new technologies, joint collaborations and licensing and development agreements. IP can be a difficult minefield to navigate, but exercising care and avoiding some of the common pitfalls highlighted above will ensure you retain a competitive edge and are able to exploit your new innovations to maximum effect.

This is the latest Foresight article in our Transformation series looking at the future of North Sea Oil and Gas. Discussing various issues from technology to employment and disputes, our sector experts offer their commercial opinions on the future of the industry. Please feel free to forward this Foresight to a colleague or to subscribe to our mailing list here [CMSEmployment.Team@cms-cmck.com](mailto:CMSEmployment.Team@cms-cmck.com).

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