



The impact of insolvency on IP licences in the work of UNCITRAL

Spyridon V. Bazinas
Senior Legal Officer
UNCITRAL Secretariat

1. Insolvency of the licensee: *ipso facto* clauses

- *Ipso facto* clauses are, in principle, unenforceable, but insolvency law may provide for exceptions (IG, recs. 70 and 71)
- Reason for an exception: IP right holders (incl. licensors) need to be able to control the use of their IP rights, in particular where the insolvency of the licensee may negatively affect not only the licensor's rights but also the IP right itself
- This is the case, for example, where the insolvency of the licensee of a trademark used in jeans affects the market value of both the trademarked jeans and the trademark
- This rule does not apply where the automatic termination is not the result of insolvency (but of a material breach or a time limitation)

6.1. Insolvency of the licensor: rejection of licence agreements

- In principle, an insolvent debtor or the insolvency administrator may reject a licence agreement as long it is not
 - fully performed by both parties or
 - subject to an exception (IG, recs. 72 and 73)
- Exceptions (IG (part two, para. 143))
 - Financial, insurance and loan contracts
 - Labour contracts
 - Public procurement contracts
 - Licence agreements, “where termination of the agreement would end or seriously affect the business of the counterparty, in particular where the advantage to the debtor may be relatively minor”
- Exceptions (IP Supplement, paras. 358-362)
 - Where at least one party has fully performed its obligations under the licence agreement (e.g. there is an exclusive licence agreement, the royalties have been paid in a lump sum and there is no other obligation outstanding)
 - Where the licensee continues to perform the licence agreement

6.2. Insolvency of the licensor: rejection of licence agreements (continued)

- Exceptions IP Supplement (continued)
 - Where rules excluding leases of immovable property apply by analogy to licence agreements (common in civil law jurisdictions)
 - Where an exclusive licence agreement creates a right *in rem* (a matter subject to the law governing the IP)
 - Where the licence agreement is registered (another matter subject to the law governing the IP)
 - Where based on the abstraction principle, the licensee may retain the licence, even after it is rejected, although the licence may be withdrawn by the insolvency administrator based on the principle of unjust enrichment

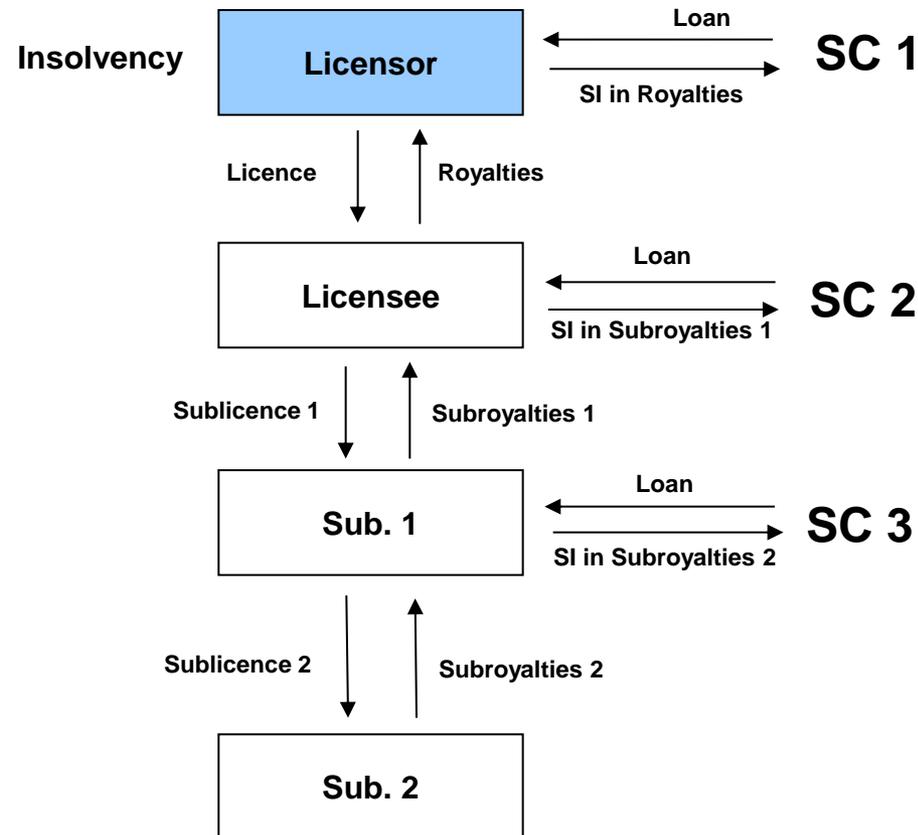
9. Insolvency of the licensor: rejection of licence agreements-different types of IP

- The Insolvency Guide and the IP Supplement do not provide for different solutions, depending on the type of intellectual property
- However, the commentary of the IG and the IP Supplement suggest that the type of licence agreement may make a difference
 - Exclusive licence agreements may not be subject to rejection
 - Trademark licences: impact on the trademark itself from the insolvency of the licensee; quality control

12.1. Cross-licences

- A licences a patent to B
- B develops further the patent and licences it back to A
- A whole industry may work in this way
- Example: the semi-conductor industry “to avoid infringement risks caused by the “patent thicket” resulting from the overlapping rights of some 420.000 patents in the semiconductor industry)-Qimonda case

12.2. Insolvency of the licensor: the problem with the chain of licences



15.1. Insolvency of the licensee: continuation of contracts - curing the default

- The insolvent licensee or its insolvency administrator can decide to continue or reject the licence agreement, subject to the conditions and the exceptions already mentioned (e.g. licence agreement not fully performed and otherwise subject to rejection)
- However, if the insolvent licensee or its insolvency administrator decides to retain the licence, it has to perform the licence agreement and, if there has been a breach, to cure the breach so that the licensor will be returned to the economic position it was in before the breach (IG rec. 79 and IP Supplement, paras. 353 and 366).

15.2. Insolvency of the licensee: continuation of contracts-assignment

- If these conditions are met, the insolvent licensee will continue to have in effect its rights under the licence agreement
- If those rights include the right to assign its rights or to grant a sub-licence, then the insolvent licensee can assign its rights or grant a sub-licence
- If the licence agreement contains a clause prohibiting the licensee from assigning its rights or granting a sub-licence, this clause must be upheld
- The reason is that a licence agreement with such a clause would be a way for the licensor to control the flow of royalty payments and may exist, for example, to ensure that the licensee will use the sub-royalties to pay the licensor or develop the licensed IP

15.3. Insolvency of the licensee: continuation of contracts-assignment

- For the same reason, a clause that the licensor may terminate a licence agreement if the licensee assigns its rights despite and agreement with the licensor to the contrary is also upheld
- The IP Supplement treats differently an agreement between a licensor and the licensee prohibiting the licensor from assigning its right to the payment of royalties (IP Supplement, paras. 101-105)
- Such an assignment is effective and any liability of the assignor for breach of contract does not affect the assignee
- If the licensee has also obtained a security interest in the licensed IP and has a right to assign the secured obligation, the security interest follows

18.1. Applicable law issues: IP, IP licence agreements and insolvency

- IP: any right considered as IP under domestic law (patents, trademarks)
- Licence: right to use
 - A distinction should be drawn between contractual and statutory licences, between licences and licence agreements and between exclusive licences (*in rem*) and non-exclusive licences (*ad personam*)
 - Its exact meaning is subject to the law applicable to the licence and to the law applicable to the IP, which may be different (the licence of a US patent is not the same as the licence of a UK patent, even if both are subject to US law)
- Law applicable
 - To the IP: IP specific, but, generally, the *lex protectionis*
 - To an IP licence agreement: generally, the law chosen by the parties
 - To a SI in IP: a combination of the *lex protectionis* and law of the debtor
 - To IP in insolvency: *lex fori concursus*
- Complexity: an Italian copyright is subject to Italian law, the licence of that copyright may be subject to US law, and, if, for example, the Spanish creator becomes insolvent, certain issues may be subject to Spanish insolvency law

18.2. Applicable law issues: law applicable to transfer of IP rights and grants of licences

- ALI-IP Principles
 - Subject matter: transfers of rights in IP and licences of IP
 - Applicable law: the law chosen by the parties
 - In the absence of a choice of law, the contract law of the State with the closest connection to the contract
 - Presumption in favour of the law of the State in which the assignor or licensor reside at the time of the execution of the contract
- CLIP: Subject matter: same as above plus “other contracts relating to IP”
 - Applicable law: same as above
 - Absence of choice: same as above
 - Factors for determining closest connection but same presumption (creator, transferor or licensor)

18.3. Applicable law issues: IP in insolvency

- Recommendation 31 of UNCITRAL IG
 - Subject matters: scope of the estate, avoidance, treatment of contracts, set off, ranking of claims, distributions, etc.
 - Applicable law: the law of the State in which insolvency proceedings are commenced (*lex fori concursus*)
- Recommendation 32 of UNCITRAL IG
 - Exceptions: financial contracts, labour contracts, any other exception should be limited and clearly set forth in the law
 - Law applicable to IP in insolvency possible exception?
- Recommendation 223 of UNCITRAL STG
 - Applicable law should not be changed in insolvency
 - Subject to mandatory law issues of the *lex fori concursus* (avoidance, ranking of claims, distributions)

THANK YOU!

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