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A Concept Proposal for a Model Intellectual Property Contracting Law

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I. INTRODUCTION

Intellectual property ('IP') assets have become important in everyday global commerce. Transactions in IP assets have grown in size and complexity. The world economy has experienced profound changes, with information products and services now driving increased productivity and growth. Moreover, the methods for distributing these assets have become incredibly rich and diverse. Contracts support both the creation and distribution of such information. As a result, there is a growing need to develop common legal rules to guide and support commercial contacting practices involving IP.

But there is a gap in the law. IP law generally focuses on recognition and protection of the property right. While some IP laws contain specific provisions for some types of contracts, usually publishing, IP law does not usually contains provisions that deal generally with IP contracts. That is left to other law. A State's general contract law addresses overall issues in the formation and enforcement of contracts, but does not typically include provisions specific to IP contracts. Commercial law is the body of law that addresses specific rules for specific types of contracts. Traditionally, commercial law evolved to support commerce in a "manufacturing" economy, and as such was primarily concerned with practices involving tangible personal property. As the world moves to an "information" economy, however, it is necessary to develop new practices to support commerce in intangible intellectual property, what we might call, to coin a phrase, "intellectual property commercial law."

Commercial law differs from IP law. IP law is more of a "regulatory" law in that it provides specific rules for operation of the property right. Commercial law, in contrast, is an "enabling" law. Its purpose is to support commerce by validating common practices, while allowing parties autonomy to tailor specific approaches in different situations. It has been said that commercial law is a "gap-filler" that supports "incomplete contracts," something like a "statutory form contract." That it, is supplies a base-line set of contracting rules that parties would likely have included anyway had they bargained about them. Parties can thus simplify their dealings on relying on the "default" rules in the commercial law if they want. However, parties can also generally change these rules as needed for specific cases. Thus, the goal of commercial law is not to regulate, not to increase the costs of engaging in commercial transactions, but to state as accurately as possible commercial understandings in a given field of commerce. That would be the goal of intellectual property commercial law.

Commercial laws for contracts involving tangible commodities have long been in force. A premier example is U.N. Convention on Contracts for the International Sale of Goods (1980),[1] promulgated by UNCITRAL (the "Sales Convention".) In 2008 UNCITRAL also a Legislative Guide on Secured Transactions,[2] and is completing an IP Supplement to this Guide. Similarly, the International Institute or the Unification of Private Law (UNIDROIT) has sponsored the Cape Town Convention on International Interests in Mobile

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[1] See http://www.uncitral.org/uncitral/en/uncitral_texts/sale_goods/1980CISG_status.html.
[2] See http://www.uncitral.org/uncitral/en/uncitral_texts/payments/Guide_securedtrans.html.

Equipment (including the Protocol for Aircraft Equipment).[3] In 2008 UNIDROIT also promulgated a Model Law on Equipment Leasing[4] (the "Model Lease Law").

Given the growing importance of IP in commerce, is it not time for the international community to consider a similar project for intellectual property commercial law?

As practicing lawyers who have spent considerable time dealing with IP contracts, especially in the international arena, we believe that such a project is warranted. An IP commercial law would provide guidance and support for a wide range of IP transactions, help harmonize international practice, and most especially facilitate commerce by SMEs who have neither the time nor the resources to keep batteries of lawyers constantly running underfoot.

Of course, it may be hard to visualize what a "Model Intellectual Property Contracting Law" might look like in the abstract. Therefore, we have enclosed with this paper a modest example a "Model Law." We hasten to add that this is merely a *concept paper* regarding what such a law might look like, not what it should be. We only propose it to facilitate discussion.

In developing our Model Law, we followed a path previously trod by UNIDROIT in the Model Lease Law and by UNCITRAL in the Sales Convention. That is, we looked to the type of provisions contained in those enactments as guidance for the type of issues that should be covered in a model law for IP contracts. We drafted the proposal as a model *law* because that was how the UNIDROIT proposal is framed. However, it might well be that an initiative on IP contracting law could be better presented as a Legislative Guide or even as a Contractual Guide. Again, we only present this model as a way to facilitate discussion, not to indicate what the international community, in its collective wisdom, ultimately should adopt.

Finally, there is the important issue of the proper forum for undertaking such an initiative. Again, we make no recommendation on where this should occur. Intellectual property is the unique province is WIPO, and any initiative on IP must first consider WIPO. Commercial law, on the other hand, is the province of UNCITRAL, which has specialized expertise in this area. A project on IP contracting law, which could utilize expertise from both bodies, may require close cooperation. One must also consider the resources of member States, and the different departments in each State that might need to participate. These are important issues to be sure, but are beyond our level of expertise.

The purpose of this paper is simply to take advantage of this opportunity to provide a forum for proposing the concept of an IP contracting law to the international community. If there is interest, then States should consider the appropriate form such an initiative should take and how it can best be addressed in international institutions.

II. OVERVIEW OF THE PROPOSED MODEL LAW

Attached to this paper is our proposed Model Law. Again, we emphasize this is merely a concept paper for discussion. While the provisions of the Model Law speak for themselves, we provide here a brief summary of the motivations for the various sections.

A. Chapter I: General Provisions

The first chapter provides general provisions that describe the overall scope and operation of the Model Law. These are inspired by the provisions in the Sales Convention and Model Lease Law, with some specific provisions for IP practices.

Article 1 contains a simplified statement of the purpose of the law derived from the preambles to the Sales Convention and Lease Law.

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[3] See http://www.unidroit.org/english/conventions/mobile-equipment/main.htm.
[4] See http://www.unidroit.org/english/documents/2008/study59a/s-59a-17-e.pdf

Article 2 contains definitions. Key terms are "assignment," which means transfer of an ownership interest, and "license," which means permission to access or use intellectual property. A "transfer" is a generic term that means either one as the situation requires.

The definitions leave open a key concept in modern intellectual property practice, the "exclusive license." This is a grant of exclusive rights, but something less than full ownership of the entire IP interest. In some countries, some IP is not capable of assignment at all, although economic rights may be the subject of an exclusive license. In other countries, for other types of IP, an exclusive license is treated as akin to a partial assignment in that it grants an ownership interest, meaning the exclusive licensee can enforce the granted IP rights by way of an infringement action. In still other countries for other types of IP, an exclusive license may only allow the licensee to enforce the IP rights by joining the licensor in an infringement action. Another way to express the concept is to classify the nature of the transfer. It could have effects *erga omnes*, in which case it can be enforced against third parties akin to an ownership interest. Otherwise, it may only have effects *inter alia* between the parties, in which case it is akin to a permission to use like a traditional license. This classification somewhat corresponds to the concept of "exclusive" and "non-exclusive." In international instruments, as well as many IP laws, however, the usual terminology is still "assignments" and "licenses." As such, the Model Law adopts this terminology. However, Article 10 states in effect that if states treat an exclusive license as a type of ownership transfer akin to a (partial) assignment, then references in the Model Law to "assignment" refer to such an "exclusive license" *mutatis mutandis*. For a concept paper this simplified approach should be sufficient, but it may need refinement in application.

Article 3 on the sphere of application of the Model Law is drawn from Article I of the Model Lease Law, which in turn looks to Article I of the Sales Convention. Article 4 contains an additional provision that the Model Law only applies to matters that may be the subject of a contract under IP law. For example, if an author's *droits moral* are not transferrable, the Model Law would not make them so. It also indicates that the Model Law neither expands nor diminishes exclusive rights or their exceptions and limitations, indicating the Model Law only deals with contracting rules, not property rules.

The Model Law is only intended to be a "residual" enactment that does not displace other more specific rules that regulate commercial practices in IP. As such, Article 5 says the Model Law does not displace any matters covered by competition, consumer protection or employment law. It also does not change laws affecting national security or *ordre public.* It excludes specific provisions in other law that deal with intellectual property, including security rights, franchise rights or business opportunities. Also, many IP law contain specific provisions that regulate specific contractual practices, such as contracts between authors and publishers. The Model Law does not displace any of these other legal rules.

Article 6 endorses the principle of party autonomy, as also found in Article 5 of the Model Lease law and Article 6 of the Sales Convention. Article 7 on interpretation comes directly from Article 4 of the Model Lease law and Article 7 of the Sales Convention.

B. Chapter II: Formation

This Chapter deals with rules for forming an IP contract. The Model Law begins by simply stating, in Article 8, that an IP contract can be formed like any other contract under a State's local law. No additional formalities are required by the Model Law.

Many IP laws require an executed writing for certain types of IP contracts, notably assignments. In addition, in many States their general contract law may also require a signed writing for other types of IP contracts, such as licenses. In Article 9, the Model Law defers to

those rules, but does not impose any additional formalities. However, the Model Law allows parties to agree to additional requirements if they desire. For example, the parties may provide that an IP contract is not effective until it is executed by both parties, or approved by their respective governing bodies, or acknowledged. The Model Law validates those additional requirements should the parties desire to include them.

Article 10 contains the provision dealing with exclusive licenses discussed above. Article 11 provides a simple validation that an IP contract operates under the State's rules for electronic contracts the same as any other contract.

It should be noted that the Model Law does not distinguish between different types of IP. That is, there are no special rules for IP contracts that involve just patents, or copyrights, or trademarks, or trade secrets. This is deliberate. The goal of the Model Law is to provide generic terms that would apply to any type of IP contract. Of course, it might be appropriate eventually to include specific terms for specific types of IP, for example, a presumption that assignment of a trademark includes goodwill. However, whether such specific terms should be included, and what they should be, is a subject for a later discussion.

C. Chapter III: Interpretation

This Chapter deals with general rules for interpreting an IP contract. The Sales Convention, Article 8 and 9, contain similar concepts although it expresses them differently.

Article 12, says parties can agree that the terms of an IP contract are as set forth in a written document. In that case the writing can be explained, but not contradicted, but evidence of prior dealing. The next provision, Article 13, says that, unless the parties agree otherwise, the meaning of an IP contract is found by examining express terms, party conduct, and professional practices in that order of priority. Finally, Article 14 contains a common provision allowing parties to agree that a written IP contract can only be amended by another written document.

Article 15 contains some basic rules to aid in interpreting transfers. Subpart (a) says they are to be interpreted by ordinary rules of contract construction, except in cases where intellectual property contains a different rule, such as requiring interpretation in favor of an author. Subparts (b) and (c) address a common problem in IP transfers: whether they include unanticipated new methods of use. Subpart (b) says an assignment (which may include an exclusive license as described above) includes unknown methods that fall within the scope of the grant unless the IP contract says otherwise. The concept is that the assignment is transferring an ownership interest, and as such would usually include all uses even if not specifically stated so long as they are the scope of the grant. Subpart (c) states the opposite rule for licenses. It should be noted that in both cases the new uses must still be within the scope of the grant whether or not unanticipated.

D. Chapter IV: Warranties

Both the Sales Convention and Model Lease Law contain provisions on warranties. It therefore seems appropriate to address the concept in the Model Law. However, given the vast range of IP contracts covered by the Model Law, and the very different commercial expectations in IP commerce as opposed to tangible commodities, the scope of any warranties for IP is necessarily more circumscribed.

Article 16 provides a useful definition of what it means to create an "express warranty." Not every contractual promise is a warranty. In particular, statements of opinion or aesthetics ("this movie is a blockbuster") are not express warranties.

Article 15 contains what is the only common warranty in IP contracts, that is, a "warranty of title" in an assignment. Since an assignment is an ownership transfer, there is

an implied warranty that the grantor owns or controls the exclusive rights assigned within the scope of the assignment and has not previously granted such interest to any other party. Note that this applies only to assignments, not licenses.

Article 18 contains a proposal on the results of a failure of warranty. Article 19 validates limitations and waivers of warranty so long as they are unambiguous.

E. Chapter V: Performance

Both the Sales Convention and Model Lease Law contain extensive provisions on required performance. Similar provisions should be included for IP contracts, but with adjustments for IP practices.

Article 20 sets forth the general obligations of the parties. In general, a transferor is required to "enable use" and a transferee is required to "pay or perform for performance accepted." These obligations are independent unless otherwise stated. Following the Model Lease Law, parties can agree that a performance obligation is irrevocable.

Article 21 defines the concept of "enabling use" as essentially making a proper transfer and providing any necessary physical material or access to an information system. Article 22 defines the concept of "acceptance" as essentially signifying the transferor's performance is agreeable. It also provides that use of the intellectual property is not allowed before acceptance except for allowed inspection and verification of performance.

F. Chapter VI: Transfer

These are provisions of specific importance to IP contracts. Article 23 states the usual *nemo dat* principle and its consequences. It also contains standard rule for when an IP transfer is effective between the parties and against third parties.

Article 24 contains a default rule regarding when further transfers are authorized. It says that, unless the IP contract provides otherwise, an assignment presumes the right to make further transfers while a license does not. However, as is common in many IP statutes, there is an exception for a transfer in conjunction with the sale of a business.

Article 25 states the usual understanding that a transfer of tangible materials does not transfer IP rights and vice versa. Article 26 states a default rule to address a problem that arises in a surprising number of cases: the duration of a transfer when the parties fail to specify one.

Article 27 contains the usual "first in time" priority rule. However, it only applies where there is no other applicable priority rule, such as that in an IP statute of a secured financing law.

G. Chapter VII: Remedies

This Chapter states the basic contractual remedies for breach of an IP contract. As indicated in Article 36, these are contract remedies only, and do not affect remedies otherwise available under IP law if conduct that amounts to a breach of contract also allows a claim for infringement or misappropriation under IP law.

Article 28(a) defines a "breach" of an IP contract comparable to Article 19(2) of the Model Lease Law. It indicates there are two types of breach: "material" and "immaterial." As set forth in later sections, the remedies for each one are different. The Model Lease Law, Article 23, uses "fundamental" breach, but the concept of "material breach" is intended to be similar. Like Article 19(1) of the Model Lease Law, Article 28(d) of the Model Law allows parties to specify what action or inaction constitutes a "material" or "immaterial" breach.

Article 28 contains an obligation to accord an opportunity to cure a breach, comparable to Article 20 of the Model Lease law.

Article 30 specifies the remedies available for breach. It allows the parties to specify the remedies available in particular cases, absent which all remedies under the contact and applicable law are available. It also indicates the effect of a waiver of remedies for a breach.

Article 31, like Article 23 of the Model Lease Law, deals with ending an IP contract. Three related concepts are defined: "termination," or ending a contract without breach; "cancellation" or ending a contract for breach; and "rescission" or ending a contract for breach. Sometimes different terminology is used for these concepts, such as "termination for cause" instead of "cancellation." However, given the crucial important of these concepts in IP commerce, the terminology here is suggested to keep them separate. A license is a defense to an infringement claim. Thus, in case of a termination or cancellation, use of the IP before such event is not an infringement under IP law, although it may give rise to contract. Like Article 23 of the Model Lease Law, Article 31 provides that cancellation or rescission is only available as a remedy for a "material" breach, unless otherwise specified. It also allows parties to indicate that cancellation or rescission is not available as a remedy at all.

Articles 32 through 34 address damages. They are drawn from Articles 21 and 22 of the Model Lease Law. Article 32 allows parties to collect damages for a breach that will "make them whole" but does not allow a "double recovery." Article 33 contains an obligation to mitigate damages. Article 34 validates liquidated damages that meet certain requirements. Given the importance of these provisions, Article 34 is one section of the Model Law that cannot be changed by the parties.

Finally, Article 35 says that parties to an IP contract can access other remedies for rescission, specific performance and injunction to the same extent as for contracts generally under a State's laws.

H. Chapter VIII: Transition

This Chapter sets forth a usual rule when the law is effective.

III. CONCLUSION

The attached Model Law represents a concept proposal for an Intellectual Property Contracting Law. It is not meant to be regulatory merely descriptive. Such a law could be of great benefit to IP commerce and we commend it for due consideration.