

Summary Report



Question Q190

Contracts regarding Intellectual Property Rights (assignments and licenses) and third parties

This Question considers contracts regarding IP rights, such as assignments, licences and security interests and the effect on third parties. One of the essential characteristics of IP rights is that they can be used commercially by assignment or licensing. The economic importance of the licensing agreements is very significant. IP rights can also be used as security to enable financing of business ventures.

The Reporter General received 44 Reports from the following Groups: Arab Regional Group, Argentina, Australia, Belgium, Bolivia, Brazil, Bulgaria, Chile, China, Denmark, Egypt, Estonia, Finland, France, Germany, Greece, Hungary, India, Indonesia, Italy, Japan, Luxembourg, Malaysia, Mexico, the Netherlands, New Zealand, Norway, Panama, Paraguay, Peru, Philippines, Portugal, Republic of Korea, Romania, Serbia and Montenegro, Singapore, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, United Kingdom and United States of America.

The Reports provide a very substantial review of national laws concerning assignments and licences in the various countries and how contract, insolvency and bankruptcy laws affect such rights. Inevitably, national laws play a significant role in the treatment of such rights, and this Summary Report will not attempt to list in any detail the very varied rules that are described in the individual Reports. It may also be the case that particular words and phrases which have a subtle and specific meaning in their original language are not fully capable of translation. The original Reports should therefore be taken as the primary source of information here.

Very few countries made proposals for harmonisation in this area. It may be that further attention should be devoted to this by Groups or the Working Committee before any harmonising proposal is made in order that Groups may appreciate the position in other countries. This may also be a reflection of the fact that AIPPI does not appear to have considered these issues before.

1) *What forms of property right do IP rights take in your country?*

Groups understood this question in different ways. Some Groups listed the types of rights that are may exist. Others described the nature of such rights. Under many national laws IP rights are personal property; such rights may be 'personal' (e.g. Denmark, Korea, Philippines, Singapore, UK). In Belgium they are 'moveable' and in the Netherlands 'biens'. Some Groups (e.g. Finland) use the term 'intangible'. The French Group noted the difference between rights which arise by creation (copyright and related rights) and those which are granted by the state on application. This difference appears to have an impact on the treatment in insolvency, as discussed below. The Japanese Group noted that IP rights had two aspects – a form of property and rights to stop others doing certain acts.

2) *Is it required to register an assignment or licence of IP rights in order for it to be effective*

a) *between the parties and*

b) *against third parties?*

There was a variety of responses to this question. Some Groups answered for all rights together, while others divided their answers for each IP right. It will be important to check national laws carefully in individual cases. Only a few countries reported a fundamental requirement to register assignments or licences. In China it is required to register an assignment or licence in

order for it to be effective. It should be registered with the administrative authority. The Japanese Group reported that there are two types of exclusive licence. One type (Senyojishshiken) must be registered to be effective. In the Philippines agreements which do not conform with technology transfer laws should be registered for approval, or they are ineffective. It therefore appears that as between parties to an agreement, there is very rarely a need to register a licence. The German Group Reports that the registration of the patent owner does not generate any constructive effect, nor does it establish any (rebuttable) presumption in favour of the person registered, that the registered person is entitled to the protected rights. However, trademark law contains a presumption to the end that the person registered is entitled to the trademark rights.

However, the position concerning effectiveness against third parties is very different. A very large number of Groups reported a requirement of registration of assignments and licences to confer rights against third parties. For example in Belgium and Spain where there are conflicting agreements, the first registered will be effective. This operates to provide legal certainty. In the Netherlands third parties generally enjoy third party protection if acting in good faith (save in the case of copyright). The Danish Group referred to the requirement of registration under the EC Community Trade Mark and Design Regulations. Exceptions appear rare. In Slovenia there is no need for registration to have an effect against third parties. Peru also reported that it is not required to register a transaction of copyright in order for it to be effective.

3) *Does the*

a) *exclusive and*

b) *non-exclusive licensee of an IP right have a right to bring proceedings for infringement, and if so, what conditions must be satisfied for right to arise?*

A large majority of countries reported that exclusive licensees have a right to bring proceedings for infringement. There are national rules surrounding this e.g. in Australia and the UK an exclusive licensee must involve the proprietor of a patent in infringement proceedings either as plaintiff or defendant. In the US an exclusive licensee may not bring proceedings if only licensed for a limited portion of the term. Belgium reported that a compulsory licensee may also bring proceedings. This is surprising and may be the subject of further study. In Germany there is no statutory provision for patents but customarily an exclusive licensee is permitted to sue. In Chile, Denmark, Estonia, Indonesia and Mexico a non-exclusive licensee may bring proceedings; in Chile and Indonesia this must be agreed. The UK and Belgium have similar provisions for non-exclusive licensees of trade marks and, in Belgium, copyright. In Spain a non-exclusive patent and trademark licensee may bring proceedings if the licensor does not act within 3 months of being asked to do so. In Malaysia the position is similar, with time limits of 3 months for patents and 2 months for trademarks. The Finnish Group reported that the position is not clear. In Japan the position is complex, depending what type of licence is concerned.

It is interesting to note that under Article 4(2) of the WIPO Joint Recommendation Concerning Trademark Licenses a Member State may not require the recordal of a licence as a condition for any right that the licensee may have to joint infringement proceedings.

4) *Is a licence transferable*

a) *by the licensor and*

b) *by the licensee?*

Given the variety of answers to this question, the transfer of licences is an issue which it is clearly prudent to address in any licence agreement. Where national laws do not address the point specifically for IP rights, national laws of contracts and obligations will apply. For example, in Denmark, the analysis turns on whether the party wishing to assign has obligations to the other that remain to be performed. If so, it is generally not possible to assign without consent.

In Australia, China, Egypt, Estonia, the Netherlands, Romania, Thailand, the UK and the US the licensor can generally assign. In Australia and the UK it is possible to assign the benefit but not the burden of a contract. In most other countries, it is possible to agree such a term. In Finland it is generally not possible. In Bulgaria assignment is only possible with the underlying right.

For transfer by the licensee the great majority of Groups Report that this is a matter requiring the licensor's consent and that this is best addressed in the original licence agreement. Where there is no agreement, the key question in some jurisdictions (including Belgium, Switzerland, the UK and the US) is whether the licence is personal to the licensee. If so, the licence may not be assigned.

5) *What is the effect on an assignment or licence of the invalidity of the underlying IP right?*

There were a number of responses to this question. Many Groups noted that IP rights if held invalid are invalid *ex tunc*. This clearly has the potential to have an impact on contracts as the underlying subject matter never existed in legal terms. One Group of countries including Spain and Switzerland noted that where an IP right becomes invalid the invalidity affects contracts concerning IP only from the date invalidity of the IP right is pronounced.

The Japanese Group noted that in theory the assignee/licensee may claim for termination and repayment of amounts paid under the contract. In practice, however, there are usually terms agreed to protect the licensor/assignor. Serbia and Montenegro note that the licensee is entitled to restitution of amounts paid. In Peru the contract is discharged unless it is fully performed. In Argentina the licensor may be liable for damages. In Egypt the licensee may terminate and seek damages. In the US there is not requirement to pay further royalties, but the licensor is not obliged to repay royalties.

6) *Can IP rights be used to provide security? If so what formalities are required?*

In the great majority of countries IP rights can be used to provide security. There are, however exceptions. In Indonesia it is not possible to provide such security. Panama and Philippines law are silent on the matter; in Panama and Thailand it should be possible to do so. In Norway it is not possible to take security over a single right, but business enterprises may create non-possessory liens on operation accessories (assets necessary for the running of a business). The remaining Groups which answered this question described a wide variety of security interests, including pledges, mortgages, deposits and usufructs. It will be critical for anyone taking security to take specific advice on the formalities required and of national variations in rights. For example, in Australia, it is not possible to take security over an unregistered trademark. In Spain, registration is 'constitutive' of the security.

A number of countries noted a specific exception surrounding copyright and moral rights. These relate to copyright and it appears that in Belgium, Egypt and Mexico these cannot be the subject of a security interest. In Mexico it is, however, possible to pledge the profits due from copyright.

The absence of copyright registration in most countries means that a security interest must be registered separately from the right. The German Group noted that the purpose of IP registers is to publicise the existence of IP rights and not ownership interests in them.

7) *Does the bankruptcy law explicitly provide for the effect of bankruptcy on IP rights and contracts concerning them?*

The great majority of Groups answered this question in the negative. The following comments were made. In the US, the Intellectual Property Bankruptcy Act of 1988 (11 USC 365n) provides for the effect of bankruptcies on contracts concerning 'intellectual property rights' as defined in the Bankruptcy Code. This does not include trademarks or foreign patents or foreign copyrights. Section 365 applies to executory contracts in general (i.e. those with substantial performance remaining on both sides). As IP contracts are generally considered executory, the Code applies to most IP contracts.

The Japanese Group noted that Articles 53 and 56 of the Bankruptcy Law apply in certain cases to allow IP licence agreements to continue despite bankruptcy and the administrator in bankruptcy has no right to rescind.

The Dutch Group noted that under s21 of the Dutch Bankruptcy Act copyrights which remain with the author, moral rights and rights in unpublished works remain outside a bankruptcy.

8) *Do all intellectual property rights form part of a bankruptcy, or are some exempted?*

The major exception to rights forming part of a bankruptcy is copyright and related rights. The Australian, Danish, Dutch, Egyptian, Finnish, Japanese, Mexican and Spanish Groups noted that copyright or related rights may not form part of a bankruptcy. The Greek Group noted that such rights must be transferable.

9) *What is the effect of the insolvency or bankruptcy of the licensor and the licensee on a contract regarding intellectual property?*

a) *Does one party have a right to terminate on the insolvency of the other?*

b) *Can the insolvent party assign the rights concerned?*

c) *What effect do express contractual terms have in this situation?*

The US Group reported that the trustee in bankruptcy of debtor has 3 options for an executory contract. They are to assume performance of the contract; assume then assign; or reject the contract. So while the trustee may reject the contract, the licensee may retain certain rights and may treat the rejection as a breach giving rise to a right to damages or retain the rights granted under the contract (11 USC 365(g)). An insolvent party cannot assign its rights where the contract is analogous to one for personal services. Under 365(f) most contracts can be assumed and assigned, except where they are personal.

In the UK the liquidator has a right to disclaim onerous property. This could be the case where the insolvent licensor has continuing obligations. In Japan, a contractual clause giving a right to terminate may not be valid. This depends on the third party effect of the contract. In the Netherlands the trustee in bankruptcy may rescind the contract. In Australia there is a moratorium on action and the court's consent is needed for action. In Portugal the licensor can terminate on the insolvency of the licensee. If the contract is personal the licensee can too.

In Belgium under Article 30 of the Copyright Act an author can terminate an agreement with an insolvent publisher. A similar right arises for audiovisual agreements under Article 20.

Under Spanish law, contractual terms allowing termination on insolvency are invalid. In Portugal, attempts to vary the statute are void. In Korea an agreement has no effect on the rights of an insolvent party. On the other hand, many Groups noted that the terms of a contract would be critical here.

10) *Is there any statutory or other protection for a licensee/licensor in the event of the insolvency of a licensor/licensee?*

Very few Groups answered this question positively. In the US the courts, as courts of equity should not allow significant damage to be done to a licensee particularly where there is no countervailing benefit to the insolvent estate. In Belgium the protections described above apply. In the Netherlands it is possible to seek a usufruct – a right to use property belonging to another and enjoy the fruits of it. The German Group described an interesting dual trust structure that may protect against the effects of insolvency.

Proposals for harmonisation in this area

The Belgian Group recommends harmonisation around the Question whether a licence agreement must be registered in order for a licensee to claim damages from an infringer. The Belgian Group suggests that damages should be available for the period before registration, so long as there is, later, a registration of the licence.

The Belgian Group also considers it desirable to harmonise

- i) the concept of *intuitu personae* (by virtue of the personality of the other party) in licence agreements i.e. how to tell whether an agreement is personal to a party and
- ii) the use of IP rights to provide security, dealing with formalities and guaranteeing effectiveness.

The Japanese Group believes it is necessary to protect parties, particularly licensees, against the insolvency of other parties, especially licensors. While registration of a licence to give it effect against third parties may work, registration is not currently common practice, it does not exist for copyright licences and may not be effective for comprehensive cross-licences. 11 USC 365(n) may represent a starting point here.

Licensees also require protection where the licensor assigns the contract. Registration may provide some protection, but the problems described above apply.

The UK Group proposed that transactions in registered rights should be registered to give third parties notice. A failure to do so should not affect the position between the parties. National laws should specifically address the effect of insolvency on IP rights and make clear that where a liquidator seeks to disclaim a licence the licensee may continue to exercise the rights licensed and that this will bind any assignee of the rights.