

recipient of the grant – generally the drafter of the instrument and thus generally the motion picture studio.<sup>31</sup>

Much the same tension between the respective rights of the author and her grantee has played out in the more recent move to digital media of commercial dissemination. Book authors, having decades ago transferred publication rights to well-known hardcopy publishing houses, have attempted to transfer to other companies the right to distribute their works electronically, through internet delivery. In *Random House, Inc. v. Rosetta Books, LLC*,<sup>32</sup> the federal trial court in the Southern District of New York – with the later endorsement of the Second Circuit Court of Appeals – ruled that the authors’ transfer of the right to publish in “book form” did not carry such e-book publication rights, so that the authors could renegotiate with electronic publishers and make what was presumably a more favorable deal than they had with their hardcopy publishers. The district judge’s analysis rested almost exclusively on an interpretation of the language of the original publishing contract with the established hardcopy publishers, against the background of then-prevailing practices in the publishing industry, with very little reference made to the federal statute, but with some suggestion that, in this instance, the authors may have been better placed than the traditional publishers to exploit the new medium (by licensing a specialized publisher).

#### 1.4 Statutory Restrictions on Alienability

The U.S. copyright act includes few restrictions on alienability. The only limitations on what the author may grant by contract concern moral rights and the right to terminate transfers of economic rights. It bears emphasis, however, that only the creators of “works of visual art” (very narrowly defined as the original or a limited edition, signed and numbered, of a painting, print, or sculpture, or of certain photographs)<sup>33</sup> enjoy statutory moral rights of attribution and integrity. Thus, for most authors, the restriction is irrelevant: it does them no good to limit the alienability of rights they do not enjoy in the first place.

<sup>31</sup> See *Cohen v. Paramount Pictures Corp.*, 845 F.2d 851 (9th Cir. 1988).

<sup>32</sup> 150 F. Supp. 2d 613 (S.D.N.Y. 2001), *injunction* upheld in 283 F.3d 490 (2d Cir. 2002).

<sup>33</sup> 17 U.S.C. sec 101.

#### Visual Artists’ Rights Act

Under the Visual Artists Rights Act (hereafter VARA),<sup>34</sup> moral rights are not transferable but they can be waived.<sup>35</sup> The waiver provision is probably consistent with article 6bis of the Berne Convention. While that treaty specifies the independence of moral rights from economic rights, and further emphasizes that moral rights persist “even after the transfer of the said [economic] rights”, article 6bis does not clearly prohibit the waiver of moral rights.<sup>36</sup> On the other hand, the independence and persistence of moral and economic rights under Berne also implies that a grant of economic rights does not of itself entail a waiver of moral rights. Rather, respect for the independence of moral rights suggests that any waiver, to be effective, must be stated with sufficient specificity to distinguish the moral rights waiver from affirmative transfers of economic interests. Were a federal visual artists’ rights law to permit art owners and exploiters to shake off artists’ rights by means of a blanket, boiler-plate waiver, then the U.S. would be honoring the precepts of the Berne Convention only in the most formalistic, indeed cynical way. Happily, the law requires that any waiver be specifically set forth both respecting the work and the owner’s use.

The law protects artists by permitting waiver only:

if the author expressly agrees to such waiver in a written instrument signed by the author. Such instrument shall specifically identify the work, and the uses of that work, to which the waiver applies, and the waiver shall apply only to the work and uses so identified.<sup>37</sup>

This language makes clear that an “all my right, title and interest” sort of waiver would be void. The law thus denotes sensitivity to the specificity of moral rights, while introducing a degree of flexibility toward art object owners and/or copyright exploiters permissible under Berne. Moreover, under the law, the burden of securing a waiver falls on the party other than the artist. If the art object’s owner, or the grantee of the copyright in the artwork, fails to obtain a writing from the artist executing the waiver, then the artist retains all moral rights. It is up to the other party to secure the artist’s written agreement to change the initial allocation of moral rights. Absent this legislation, most of an artist’s moral rights protections could be obtained, at the artist’s initiative, only by contract. Because many artists

<sup>34</sup> Pub. L. No. 101-650, Title VI, 104 Stat. 5089 (1990).

<sup>35</sup> Visual Artists Rights Act § 603 (e), 17 USC § 106A (e).

<sup>36</sup> See, e.g., Sam Ricketson and Jane Ginsburg (2006), *International Copyright and Neighbouring Rights: The Berne Convention and Beyond* (Oxford University Press, 2006, Vol. 1, p. 599, ¶ 10.17).

<sup>37</sup> Visual Artists Rights Act § 603 (e), 17 USC § 106A (e).

fields of use probably distinguishes copyright licenses from those applicable to other intellectual property rights.

As with other intellectual property rights, licenses can be exclusive or simple. Licenses involving the making and distribution of copies will more often be exclusive than licenses involving a form of communication to the public. For example, in the fields of book or music publishing, typically the contract will be an exclusive license (or an assignment).<sup>15</sup> The importance of the investment made by the exploiter probably explains this. For live stage performances, the license will in principle be simple (non-exclusive), as the various licensees usually will not compete with one another (the theatres are located in different places).

The role of collecting societies or collective management organizations is prominent in case of a communication to the public. This is clear for instance for the right to license the communication of music or film in public spaces. In certain instances, such as cable retransmission, collective management is even imposed by European law.<sup>16</sup> Where the work is primarily made accessible under the form of tangible copies, for instance for books or package software, collective management is very rare, except for secondary uses covered by statutory licenses, such as those existing for reprography or private copies. Collective management societies then get the task of collecting the levies associated with those statutory licenses and of redistributing the collected sums. The contracts between authors and collective societies can be read as a form of license allowing the collective management organization to grant a sublicense and to receive the remuneration for various uses by third parties.

### 2.3 Waivers of Moral Rights

Unlike economic rights, moral rights are often qualified as "untransferable" (unalienable) by law, as they are in the French and Belgian Copyright Acts, as distinct from how moral rights are viewed in the UK.<sup>17</sup> Notwithstanding the express or implicit recognition of their inalienability in continental European countries, moral rights can usually be waived, but under strict conditions. For example, the Belgian Copyright Act considers that a global waiver of an author's moral rights should be null and void,<sup>18</sup> but a partial waiver for a determined use, consented *a posteriori* or even *a priori*, could

<sup>15</sup> See e.g. Art. L. 132-8 IPC.

<sup>16</sup> See Art. 9 (1) of the 93/83/EEC Council Directive on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission.

<sup>17</sup> Art. L. 121-1 IPC; art. 1 (2) (1) BCA.

<sup>18</sup> Art. 1 (2) (2) BCA.

be valid. It is clear that the moral right of integrity is partly waived when the creator authorizes an adaptation of her work. Many other forms of exploitation of copyrighted works imply a limited waiver of the right to oppose certain marginal changes to the work that conform to the common and fair practices. Similarly, the right of attribution (paternity) can be exercised negatively, when the author intends to remain anonymous or has been paid to ghost-write for example.

Contracting on moral rights is usually facilitated when the other party is not a producer, but a collective management organization acting in the interest of its members. In this context, the author can grant a limited authorization to the collective society to exercise her moral right and to recover some damages in case of infringement.

### 2.4 Formal Conditions for Copyright Contracts (Proof, Specification, etc.)

In France and Belgium, the transfer of property, including the assignment of copyright, is not subject to any formalities; only the consent of both parties is needed (transfer operating *solo consensu*).<sup>19</sup> In principle, the transfer is immediate and takes place when the consents have been exchanged.<sup>20</sup> The consent can be made in writing, orally or even tacitly. There is no requirement of a written instrument for the contract to be *valid*. Under German law, the right to use can also be granted explicitly or implicitly (e.g. for an author under an employment contract). However, in practice, most licenses will be in writing in order to secure the respective rights of the parties.

This is also prompted by the rules imposed for *proving* licensing agreements: some formalism is sometimes imposed by law. For instance, under Belgian copyright law,<sup>21</sup> the producer will have to use a written (and signed) instrument as proof against the author (i.e. the individual creator), while the author is free to use any element of proof, including clues or oral evidence. The *rationale* of this rule on evidence is of course to induce producers to submit written contracts, allowing the author to be better informed about the scope of the rights she grants. Written contracts also ensure that the parties enjoy a reflection time before concluding the agreement and that all relevant information is exchanged before signing the written document.

<sup>19</sup> It should be noted however that the requirement for the creator's consent is reinforced, under Belgian and French copyright law, since the latter must agree on the scope, purpose, duration, and geographical scope of the rights granted (see *infra*).

<sup>20</sup> For the sale of tangible goods (transfer of material property), this rule is enshrined in articles 1583 and 1138 of the French and Belgian Civil Code.

<sup>21</sup> Art. 3 (1) (2) BCA.

comments to the ALI Principles ... [I]f ... adopted, the limits of section § 3.05 (b) are likely to be well defined or at least well delimited."<sup>41</sup> Needless to say, we agree.

Finally, the implied warranty of no material hidden defects cannot be disclaimed. This increases licensee protection from defective software because other protections, such as the implied warranty of merchantability, can be disclaimed.<sup>42</sup> Further, policy reasons and precedent support the rule's immutability. A licensor should not be allowed to disclaim liability for what amounts to fraud. Case law in the United States supports this Principle.<sup>43</sup> In addition, a licensor can insulate itself from liability by disclosing known material defects.<sup>44</sup> Finally, courts enforce reasonable arbitration clauses that would diminish the threat of overwhelming class actions against a licensor based on section 3.05 (b).<sup>45</sup> The bottom line is that in the U.S. as well as in the rest of the world, if a licensor knowingly licenses materially defective software and the licensee cannot protect itself through inspection, the licensor should be liable for the damages the software causes.

### 3. AUTOMATED DISABLEMENT

Whether and under what circumstances to permit a licensor to disable software's functionality automatically, for example, by building a "time bomb" or similar device into the software or by reaching into the licensee's computer remotely, raises difficult questions involving balancing freedom of contract with the considerable risks to the licensee of wrongful disablement.<sup>46</sup> In formulating our approach to the issue in the ALI Principles, we were guided by United States' case and statutory law and the experience of the drafters of the Uniform Computer Information Transactions Act (UCITA). We first discuss these efforts because they help explain the balances that we struck in the ALI Principles. We then set forth an explanation of how the ALI Principles address automated disablement. We end this section with some thoughts on how other nations might find the

Principles' approach useful and with a brief comment on the main objection to our approach.

In the U.S. with the exception of state enactment of the Uniform Commercial Code (UCC), Article 2 on the sale of goods, much of contract law is judge-made. Further, when it applies, statutory language is not always determinative without resort to judicial interpretation of the language. We thus looked to the few cases that addressed automated disablement. For example, in *Clayton X-Ray Co. v. Professional Systems Corp.*, the court upheld a finding of conversion and award of punitive damages against a licensor. The licensor, in the midst of a contract dispute with the licensee, had sent its employee to the licensee's place of business to install a "time bomb" on the licensee's system and told the licensee that it was simply installing some changes to the program.<sup>47</sup> In *North Texas Preventive Imaging, LLC v. Eisenberg*, the court held that a licensee could have a claim under the federal Computer Fraud & Abuse Act when its licensor installed disabling code on the licensee's system without disclosing that fact to the licensee.<sup>48</sup> Likewise, the lack of disclosure troubled the court in *Frank & Sons v. Information Solutions, Inc.*<sup>49</sup>

The drafters of UCITA initially permitted electronic self-help, but placed a number of restrictions on its exercise. For example, UCITA required the licensee to separately assent to a term authorizing self-help and required the licensor to give notice of its intent to use that remedy. Further, UCITA directed courts to give "prompt consideration" to the licensee's application for injunctive relief.<sup>50</sup> Despite these limitations, many commentators remained opposed to permitting self-help. They were concerned, *inter alia*, by the security vulnerabilities inevitably introduced into a system that enables a licensor's remote access, the risk to other programs and data not involved in the dispute, the inability to compensate a wronged licensee in damages, and the possibility that licensors would use the ability to disable the licensee's software in an extortionate way.<sup>51</sup> In light of these objections, the drafters of UCITA prohibited electronic self-help in the final version of the Act.<sup>52</sup>

<sup>41</sup> Gibbons, *supra* note 29, at 31–2.

<sup>42</sup> ALI Principles, *supra* note 1, §§ 3.03 and 3.06.

<sup>43</sup> *Id.* § 3.05(b), cmt. b; Rprtrs. Notes cmt. b.

<sup>44</sup> *Id.* § 3.05(b), cmt. b.

<sup>45</sup> Gibbons, *supra* note 29, at 34.

<sup>46</sup> See ALI Principles, *supra* note 1, § 4.03 & cmt. a; Rprtrs. Notes cmt. a (discussing the controversial nature of this "self-help" remedy and describing how a prior effort to draft uniform rules for software transactions eventually banned self-help).

<sup>47</sup> 812 S.W. 2d 565 (Mo. Ct. App. 1991).

<sup>48</sup> 1996 WL 1359212 (C.D. Cal.).

<sup>49</sup> 1998 U.S. Dist. LEXIS 19356 (N.D. Okla.).

<sup>50</sup> UCITA § 816 (Nov. 1, 1999 draft), available at <http://www.law.upenn.edu/bll/archives/ulc/ucita/ucitanc.htm> (last accessed April 12, 2012).

<sup>51</sup> See Hillman & O'Rourke, "Defending Disclosure", *supra* note 21, at 111–12 and sources cited therein (explaining that remote disablement requires a "back door" into the licensee's system that places the system at risk for intrusions by others, and discussing other concerns with automated disablement).

<sup>52</sup> ALI Principles, *supra* note 1, § 4.03 & cmt. a.

arrangement to qualify for copyright protection. As a result, a fully comprehensive database (e.g., non-selective) or a random assignment of listing categories (random arrangement)<sup>7</sup> does not qualify. This is true even if, because of widespread use in a trade, profession, or field, the database attains great value. For example, a database of all parts and parts numbers used in repair of Mercedes automobiles may be very valuable in the car repair trade, but it is not copyrightable if the numbers are randomly assigned at the factory and the list contains all parts (which, of course, would be what makes it important to the actual user).

On the other hand, at least under U.S. copyright law, it is well-established that if it is *original* (e.g., not copied from a prior work), the level of creativity required in selection or arrangement to attain copyright protection is *diminimus*.<sup>8</sup> Thus, a person's selection of the best local restaurants in a particular city is copyrightable, even if many people in the city would agree with most of the selections. A selection of nine variables to predict the performance of pitchers in daily baseball games likewise can be copyrighted unless it merely mimics previously published selections.<sup>9</sup>

These and other like examples, however, provide little support for most forms of licensing of factual information or databases, since the examples relate to the database as a whole and not to individual components thereof. There are, however, some circumstances where the copyrightability of the database as a whole has relevance in a licensing framework. If, for example, the transaction involves delivery of a database on digital medium under a license that limits use of and prohibits transfer of that copy, the licensor may have some benefit from the copyrightability of the database as a whole as means of providing a cause of action against a third party who received an unauthorized transfer of the copy (or of a copy of it).<sup>10</sup> Similarly, if an entity desires to obtain an entire database for its own use, the copyrighted character of that database can be one element of the negotiation for transfer of a copy of it to the licensee and one factor in enforcing license terms prohibiting transfer of that copy to anyone else. Likewise, a publisher

<sup>7</sup> See *Toro Co. v. R&R Prods. Co.*, 787 F.2d 1208 (8th Cir. 1986).

<sup>8</sup> See, e.g., *Assessment Technologies of Wisconsin, LLC v. WIREdata, Inc.*, 350 F.3d 640 (7th Cir. 2003).

<sup>9</sup> See *Kregos v. Associated Press*, 3 F3d 656 (2d Cir. 1993).

<sup>10</sup> See *MDY Industries, LLC v. Blizzard Entertainment, Inc.*, 2010 WL 5141269 (9th Cir. 2010) (although not dealing with a database, confirming that licensee who transfers copyright copy breaches contract and transferee does not become owner); *Vernor v. Autodesk, Inc.*, 2010 WL 3516435 (9th Cir. 2010) (although not dealing with a database, confirming that licensee who transfers copyright copy breaches contract and transferee does not become owner).

desiring to publish, on a daily basis, the popular nine-variable matrix of baseball pitcher statistics will be influenced by the fact that it is covered by copyright.

While there are other illustrations where copyright of the database as a whole has importance in modern licensing, for many databases, copyrightability based on selection and arrangement provides relevant legal protection only in respect of threats of piracy.

For licensing transactions that deliver copies of part of a factual information database or provide access to portions of an online database, the copyright on the overall selection and arrangement will often (although not always) be irrelevant to enforcing any claim against third parties.<sup>11</sup> This is because the copyright is thin. In our earlier example about nine variables used to predict the performance of baseball pitchers, for example, if a licensee examines those, keeps six and replaces three with its own choices, has it infringed the original author's selection? No. If a licensee takes a licensed list of 100 best restaurants, changes it to add 40 of its favorites, and deletes 40 of the licensor's, licensing the result to a third party, is there copyright infringement? No. If a licensee takes factual data from a report about a company given to it by a licensor and distributes copies to its clients without permission, is there infringement? Generally no. What the database operator will be left with is either a breach of contract claim or, in some cases, a claim that the alleged factual data as described actually contains protected expression.

## 4.2 What Constitutes a Fact?

To understand the copyright exclusion of any protection of facts, a licensing professional must ponder the question of what constitutes a "fact"? There are many philosophically challenging ways to answer that question. But for our purposes, it is most important to concentrate on the purpose of the exclusion. Copyright law precludes copyright over facts because facts are building blocks on which subsequent authors, advocates, artists and inventors must be allowed to construct their own works.<sup>12</sup> By excluding them

<sup>11</sup> See Raymond T. Nimmer & Holly K. Towle, *The Law of Commercial Electronic Transactions* (A.S. Pratt 2003, onwards), para. 3.02 (discussing property rights in information).

<sup>12</sup> See Raymond T. Nimmer, *Information Law* (Thomson-West, 2006 onwards), § 3:2. See also Wendy Gordon, "On Owning Information: Intellectual Property and the Restitutionary Impulse", *Virginia Law Review* 1992 78: 149; James Boyle, "The Second Enclosure Movement and the Construction of the Public Domain", *Law and Contemporary Problems* 2003 66: 33.

representation made by the other party, the first party may have rights under the law of tort for misrepresentation, and may also have rights under the law of contract for breach of warranty, if the misrepresentation has become a term of the contract.

- *Private international laws.* Private international laws, including choice of law and jurisdiction: which law the contract is made under will affect issues such as whether there are any implied terms (e.g. of good faith), how the terms of the contract are interpreted and whether the obligations under it are legally binding. Many IP agreements are international in character, for example where they relate to a territory larger than one country, or are between parties based in different countries. Contractual clauses dealing with choice of law and jurisdiction are often the subject of negotiation.
- *Other commercial and consumer laws.* Other areas, for example laws governing insolvency, tax, currency exchange,<sup>8</sup> export control laws, product liability and consumer protection:<sup>9</sup> these laws may affect the rights and obligations of the parties to the IP agreement and may be the subject of specific contractual provisions. For example, many IP license agreements include a provision addressing what is to happen if royalties cannot lawfully be exported from the licensee's country of operations.<sup>10</sup>

This chapter will focus mainly on two of these areas: (a) patent laws (with some discussion of underlying property law); and (b) contract laws. In the author's experience, most disputes in relation to patent licensing agreements are concerned with one or both of these areas of law. By way of illustration, common areas of dispute include the following:

- Has the correct amount of royalties been paid (which may depend on which products are within valid claims of the patents and/or the interpretation of contractual obligations)?

<sup>8</sup> Some countries regulate or prohibit the movement of money out of the country.

<sup>9</sup> Most but not all patent licensing transactions may be considered as business-to-business (B2B) transactions rather than consumer transactions, but consumer protection law should not be overlooked.

<sup>10</sup> Typically, there is an obligation on the licensee to try to obtain permission to export the royalties from the relevant government body, and if such permission is not readily obtained the royalties must be placed in a separate bank account for the licensor in the country in which the royalties are "frozen".

- Has the licensee been sufficiently diligent in exploiting the licensing patents (e.g. has he complied with a contractual "best efforts" obligation)?
- Has the licensor been in breach of a warranty (e.g. as to the status of the licensed patents) or an exclusivity obligation?

In some of these areas, it is not entirely clear whether the issue should be described as a contract law or a patent law issue, or both. For example, if a dispute arises as to whether, in the absence of an express contract term, a licensee is implicitly entitled to grant sub-licenses, it may be necessary to consider both patent legislation<sup>11</sup> and contract law on implied terms.<sup>12</sup> At a practical level, it may not matter which legal category an issue comes into, and the proposals later in this chapter do not attempt any such classification.<sup>13</sup> However, it is convenient to consider "pure" patent issues separately in the following discussion of existing laws.

<sup>11</sup> See, e.g., in the case of English law, section 30 (4) (a) of the Patents Act 1977 includes the following words: "to the extent that the licence so provides, a sub-licence may be granted under any such licence ...".

<sup>12</sup> See, e.g., in the case of English law, as well as the general principles that should be followed when implying terms (the "officious bystander" test and so on) there have been cases that considered whether any such term should be implied into license agreements, e.g., *Howard v Bullough v Tweedles & Smalley* [1895] 12 RPC 519 (whether such a term is implied in exclusive licenses), *Allen & Hanbury Ltd's (Salbutamol) Patent* (1987) RPC 327, CA (what terms would be implied into a license agreement (whether sub-licensing or sub-contracting) will be a matter of construction), *Clearsprings Management Ltd v Businesslink Ltd and another* [2005] EWHC 1487 (Ch), [2005] All ER (D) 172 (Jul) (what was necessary to be implied was the minimum type of license, which did not include the right to sub-license).

<sup>13</sup> A possible way of categorizing patent licensing issues is to consider whether they affect all patent owners or licensees (e.g. the rights of an exclusive licensee, in some countries, to bring infringement proceedings in his own name) or just the individual parties to a contract (e.g. a term of the license agreement that states that the licensor and licensee will apportion any damages from infringers in specified proportions (e.g. 50:50). The former type of issue might be regarded as a patent law issue, the latter as a contract law issue. Patent legislation sometimes strays into the contract law arena, e.g. (as noted above) section 30 (4) (a) of the U.K. Patents Act 1977 which includes the following words: "to the extent that the licence so provides, a sub-licence may be granted under any such licence ...".

must inform the licensee at least 30 days prior to the last date on which action can be taken to continue the licensed patent, and give the licensee an opportunity to take over the management of the patent in question at its own cost and risk.

- (b) Neither party to a patent license has any obligation to sue infringers of the patent.
- (c) An exclusive licensee has the right, but not the obligation, to sue infringers of the licensed patent within the field of the license. If the exclusive licensee elects not to do so, the licensor may sue such infringers.
- (d) A non-exclusive licensee has no right to sue infringers of the licensed patent.

#### 7 Cooperation generally

- (a) The parties to a patent license shall cooperate with, and act in good faith towards, one another. These obligations of cooperation and good faith shall not, however, modify the terms of the Convention or the express, written terms of any license agreement entered into by the parties.

#### 8 Financial terms

- (a) Where a patent license includes payment obligations related to the extent of activities under the license (e.g. a royalty on sales), the licensee must keep accurate, up-to-date accounts of such activities, must report regularly (and in any event at least annually) on the extent of such activities, and must make the accounts and any underlying records available for audit by the licensor or his external accountant. Such obligations shall be included in any permitted sub-license. Such obligations shall survive any termination of the patent license.
- (b) Any amounts stated in the patent license are exclusive of any applicable Value Added Tax or sales tax, which will be payable by the licensee in addition to the amounts so stated.
- (c) Where a licensee is required by law to withhold income or corporation tax on the amount of any payment under a patent license, it may do so. The parties will cooperate and take reasonable steps to avoid such withholding of tax, including by making applications to the relevant tax authorities for permission to make the payment without such withholding.
- (d) Payments under a patent license must be paid within 30 days of the due date, failing which they will attract interest on a daily basis at a rate equivalent to an annual rate of 8 per cent above the base lending rate of commercial banks in the country or state of the licensor.

#### 8 Termination

- (a) Except where the license is for a fixed term, either party to a patent license may terminate it on reasonable notice, not exceeding 12 months.
- (b) Either party may terminate a patent license by notice in writing to the other party if:
  - (i) the other party commits a material breach of the terms of the license and such breach remains unremedied for a period of 30 days after notice of breach has been given; or
  - (ii) the other party becomes insolvent or bankrupt or a liquidator, receiver, administrator, trustee or similar official is appointed in respect of the other party's assets or business.
- (b) A licensor may terminate a patent license by notice in writing to the licensee if:
  - (i) the licensee challenges the validity or ownership of the licensed patent in any court or Patent Office; or
  - (ii) in the case of an exclusive license, the licensee manufactures or sells any product that competes with the licensed product.
- (c) A party is excused performance of his obligations under a patent license for as long as performance is substantially prevented by circumstances beyond his reasonable control. If such circumstances continue for more than 6 months, either party may terminate the patent license.

#### 9 Governing Law/Dispute resolution

- (a) Patent license agreements shall be governed by the law of the country or state of incorporation or residence of the licensor.
- (b) Any dispute, controversy or claim arising under, out of or relating to patent license, including, without limitation, its formation, validity, binding effect, interpretation, performance, breach or termination, as well as non-contractual claims, shall be referred to and finally determined by arbitration in accordance with the WIPO Arbitration Rules. Unless otherwise agreed by the parties, the arbitral tribunal shall consist of a sole arbitrator and the place of arbitration shall be the country or state of incorporation or residence of the licensor. The language to be used in the arbitral proceedings shall be the main language used in the country or state of incorporation or residence of the licensor.

#### 10 Assignment and change of control

- (a) A licensee may assign or novate its rights and obligations under a patent license to a purchaser of all or substantially all of its

invention. The formula is as follows: remuneration amounts to 30 per cent of the 10 per cent of the total payment of the industry partner to the university.

One should avoid cooperation projects in which no remuneration for inventions is specifically agreed upon. In such a case it is to be expected that the courts in Germany may decide on fictive invention compensation percentages and amounts, measured by reference to the total project funds paid by industry to universities, with a great deal of resultant legal uncertainty. According to some (an opinion shared by this author), a pure waiver of any remuneration for inventions transferred by universities to industries in such projects would be unlawful, in view of the clear provision of Article 42 of the Law giving 30 per cent of the gross income of the university to the professor – disposition that is to be understood as an indemnification for the loss of the professor's privilege.

### 2.7 The Modernization of the Berlin Contract in its Revised "2007 Edition"

The essential basis for the "2007 edition"<sup>7</sup> of the Berlin Contract has been the acknowledgement by the above mentioned working group that the "2003 edition" of the Berlin Contract has essentially satisfied the expectations of practice. Some streamlining has taken place, however, in the "2007 edition". In this context, particular attention should be given to a new regulation concerning industrial partners' results as well as joint results obtained in research collaborations: the "2003 edition" of the Berlin Contract<sup>8</sup> had provided for a rather complicated format in which a remuneration for joint results should be given by the industry partner(s) to the university in case of inventions in which both the industry partner and the university had a share in the coming into existence of the invention of 50 per cent. Whereas the "2007 edition" provides that results in which both parties, i.e. industry and university, have a share of 50 per cent each, are considered to be similar to results in which industry has a share of more than 50 per cent, with a specific kind of lump-sum remuneration. This significantly simplifies the remuneration of joint results with a 50:50 share. Only university results, i.e. such results in which the share of university is more than 50 per

<sup>7</sup> Both the German and English language versions of the "2007 edition" of the Berlin Contract, as well as the names and contact details of members of the above mentioned working group can be downloaded from the Ipal GmbH website, at <http://www.ipal.de> (last accessed 10 April 2012).

<sup>8</sup> As discussed in *Les Nouvelles* 2003, 177–178, see footnote 6.

cent, differ from the aforementioned simplified form of remuneration and are subject to specific proposals for license agreements.

### 3. MUNICH CONTRACT

In contrast to the Berlin Contract, the Munich Contract is not a trilateral agreement, but rather is concluded "only" between the university and the industry cooperation partner.

Consequently, the issue of the waiving of certain rights of professors/researchers (see above Section 2.3) cannot be achieved by the Munich Contract. This, according to the above mentioned Guidelines, is the greatest risk resulting from the use of the Munich Contract. Thus, should the Munich Contract be used, it is highly advisable that a separate agreement between professor/researcher and industry be concluded in order to avoid these risks.

Furthermore, the Munich Contract does not differentiate between service contract work, research on commission, and research cooperation, as the Berlin Contract does. Rather, according to the Munich Contract all of these projects are considered to be research contracts.

According to the Munich Contract generally, patentable results can be patented by the university and the industry partner will get license rights of various natures, depending on its contribution and interest, all of which are to be individually negotiated.

### 4. BMWi CONTRACT

Coincidentally, at the time during which the revised version 2007 of the Berlin Contract was being developed, a working group initiated by the German Chancellery, set up at the German Federal Ministry of Economy (BmWi), developed an alternative proposal for agreements on research cooperation between industry and university, which in some points deviates from the principles of the Berlin Contract but particularly so that the interests of non-university research institutions are also taken into consideration.

Specifically, the difference between the BmWi Contract and the Berlin Contract, in both of its editions (2003 and 2007), is that according to the BmWi Contract it can be provided that, in case of research on commission as well as with regard to the results of research cooperation in which the industry's share is at least 50 per cent, no individual remunerations are paid per invention made during the cooperation between industry and university. Rather, the system provides that from the beginning of a certain research commission/cooperation project a certain amount of money, such as a

The upshot of these provisions is that quality control in fact would serve as the linchpin for valid trademark licensing. This meant that quality control was, at the end of the day, a matter of proof based on actual use of the mark by the parties to the license. The emphasis on establishing quality control by virtue of use was consistent with the basic principle under U.S. trademark law that rights are created by use and not by registration. By contrast, as seen, the registered user requirements in the U.K. could be understood against the backdrop of the more registration-based focus of its trademark mark system.

However, there was no indication what indicia of quality control were required. Accordingly, the courts were called upon to provide guidance on how to determine whether the quality control requirement had been met. The trademark licensing narrative in the United States would, therefore, in large measure be determined by the metes and bounds set in judicial pronouncements on this issue. The broad contours of the scope of the quality control requirements were particularly set out in two seminal cases.

In the *DuPont* decision, the court ruled on an action for cancellation (technically under the previous trademark act) based on a claim that there had been inadequate quality control. Having regard to both the decision at first instance and the decision on appeal, the courts collectively refused to embrace a narrow interpretation of what constitutes valid trademark licensing. In particular, the courts rejected the claim that ambiguities in the license agreement with respect to quality control and source should be construed against the licensor.<sup>33</sup> It was also emphasized that since a cancellation would result in a forfeiture of the licensor's trademark rights, the grounds for cancellation had to be scrutinized especially carefully.

In the *Dawn Donut* decision, the court affirmed the principle that the license had to contain provisions that pointed to the obligations of the licensor to take reasonable efforts to exercise quality control over the licensee's use of the mark to prevent deceptive use. In the absence of such control, use of the mark by the licensee would amount to a naked license that would result in abandonment of the owner's rights in the mark.<sup>34</sup>

Since the enactment of the Lanham Act and these early judicial pronouncements thereafter, various courts have been called upon to decide whether or not the quality control requirements have been met. No exhaustive set of factors have been judicially recognized to determine this question. In particular, the claim is made that the terms "control", "quality" and "source" lack any consistent meaning. As a result, some commentators have

<sup>33</sup> *E.I. DuPont Nemours & Co. v. Celanese Corp of America*, 167 F.2d 484 (C.C.P.A. 1948).

<sup>34</sup> *Dawn Donut Co. Inc. v. Hart's Food Stores, Inc.*, 267 F.2d 358 (2d Cir. 1959).

expressed the view that the quality control requirement is flawed or should even be jettisoned.<sup>35</sup> Stated otherwise, the criticism focuses on the operability of the quality control rule, on the one hand, and its applicability in light of changing commercial circumstances, on the other. These are competing narratives about the future of quality control.

If the quality control rule is no longer applicable, then it does not matter whether or not the test is operable; it should be discarded in any event. But the rule cannot be eliminated without having regard to altering trademark doctrine more broadly. As discussed above,<sup>36</sup> the quality control rule itself was the result of the challenges posed by changes in the commercial use of trademarks by third parties and the perceived limitations on trademark law in accommodating those changes. Quality control provided a legal solution by means of a judge-made (at least at the outset) change to the trademark law. The open questions raised by the *Scandecor* decision point out how difficult it is to create a new narrative for trademark licensing by minimizing, or even eliminating the quality control requirement, while still seeking to maintain the framework of classic trademark law.

If, however, the quality control rule itself is valid, then the problem is less the formulation of a new narrative and more the question of how to create a framework that yields more reliable and thus predictable judicial results. Difficulty in implementing a judicial rule, however, is not of and in itself a sufficient basis to change or even abandon it. If that were the case, legal principles such as the "rule of reason", in U.S. antitrust law,<sup>37</sup> or "likelihood of confusion", under trademark law itself, might also be ready candidates for change, if not elimination. Here, what is required is perhaps a change in the contours of the rule to make it more effective without discarding it in its entirety.

<sup>35</sup> See *supra* note 14.

<sup>36</sup> *Supra* Section 2.2.

<sup>37</sup> The "rule of reason" is a basic principle of U.S. antitrust law. It has been described as follows: "running throughout the history of antitrust law are two contrapunctual themes: a prohibition of restraint of trade and a principle lately called the "rule of reason ... [A]s the common law developed, the courts came to recognize the validity of agreements which were ancillary to the sale or transfer of a trade or business and which were limited so as to impose a restriction no greater than reasonably necessary to protect the purchaser's interest". L. Loevinger, "The Rule of Reason in Antitrust Law", *Virginia Law Review* 1964 50: 23. As with the question of likelihood of confusion in trademark law, the question has always been to what extent this rule yields a judicially reliable test.

control may be present; the third party may be permitted to affix the mark to the goods; the third party may either manufacture or sell the goods bearing the mark. But in none of them does the third-party user carry out all of these activities. Accordingly, the narrative applicable to trademark licensing does not apply to any of them.

As a result, these various types of third-party use of a trademark have the cumulative effect of blurring the legal boundaries between them and trademark licensing. At the operational level, this blurring creates uncertainty about the extent to which the trademark licensing narrative will apply to a given situation.

## 6. THE GERMAN AND FRENCH APPROACHES

It is useful to compare the trademark licensing position under the common-law-inspired narrative with the position under Continental law, most notably French and German law. In neither of these countries has the development of trademark licensing law mirrored what took place in the common-law world. In particular, there is no concern for preserving the source function of trademarks by means of the provision and exercise of quality control.<sup>50</sup> Instead, the legal focus has been on whether or not there is explicit statutory recognition of trademark licensing and the application of the statutory provisions of property and contract law to trademark licensing.

### 6.1 The German Law Approach

The development of the law governing trademark licensing took a somewhat different route in Germany.<sup>51</sup> There, until the enactment of the EC

<sup>50</sup> As such, the French and German positions on trademark licensing show that despite the developments in the common law regarding trademark law, there is nothing inherent in this. Indeed, Article 21 of the TRIPS Agreement provides that "Members may determine conditions on the licensing and assignment of trademarks", leaving the requirement of quality control to the laws of the individual Member States. In that connection, the only requirement for trademark licensing is that there is consent of use by the trademark owner. As noted by Gervais in Comment to Article 21: "The purpose of a trademark being its ability to distinguish the goods or services of one undertaking from those of another, it would be nonsensical to let a third party use that link without the consent of the trademark owner." D. Gervais, *The TRIPS Agreement: Drafting History and Analysis* (3rd ed., Sweet & Maxwell 2008).

<sup>51</sup> This discussion is based on Chapter 16, "A German Law View of Trademark Licensing", written by Dr. Ludwig Kouker in Wilkof and Burkett, *supra* note 5, and on the personal communication of Malte Nentwig, both of Boehmert & Boehmert.

Trademark Directive in 1988 and the incorporation of s.30 of the German Trade Mark in 1995, German law did not contain any explicit provisions with respect to trademark licensing. As such, prior to these enactments, the principle source of German law governing trademark law was contract law, augmented by provisions governing special contracts concerning arrangements such as rental, tenancy, sales and the provision of services.

Against this background, the primary jurisprudential issue under German law in connection with trademark licensing has centered on the question of whether a trademark license was wholly contractual in nature or whether, alternatively, there was also a proprietary aspect. Traditionally, the majority view was that it was only contractual in nature. This meant that the proprietor/licensor could not seek to enforcement his proprietary right in the trademark against a licensee who was in breach of the license.

The only remedy that was available to the licensor was a contract claim. Thus, for example, the licensor could not seek to have infringing goods removed from the market. As a corollary, the licensee also had no proprietary right by virtue of the license. In particular, the licensee had no separate right of suit in the event of third-party infringement of the trademark. The licensee could only sue if the licensor explicitly granted the licensee the right to do so.

Pursuant to the enactment of the German Trade Mark of 1995, s.30 (2) sets out five provisions regarding a trademark license, the breach of which entitles a licensor to sue for infringement, even as against the licensee. Any other claim by the licensor against the licensee, such as a delay in contravention to the terms of the license agreement, can be brought only as an action for breach of contract.<sup>52</sup> The provisions of s.30 (2) correspond to the provisions of Article 8(2) of the Trademarks Directive.<sup>53</sup> Further, under s.30 (3) of the German Trademark Act, the licensee as well may sue for infringement, provided that it has received consent from the licensor.

Even after the enactment of s.30 (2), debate continues over whether or not a license confers a partial transfer of the proprietary rights of the licensor to the licensee. In any event, by virtue of s.30 (2), a licensor can take an action for infringement against a licensee or the customers of the licensee if a breach of at least one provision of that section has taken place. On the other hand, it is recognized that the grant of a license for use of a company name,

<sup>52</sup> This means that unlike a claim of infringement, which in principle may be brought against both the licensee and customers, such a contract claim can only be brought against the licensee.

<sup>53</sup> Article 8 (2) of the EC (as it then was) Trade Marks Directive of December 21, 1988 ("First Council Directive of December 21, 1988 to approximate the laws of the Member States relating to trade marks" (89/104/EEC)).

necessary to develop new practices to support commerce in intangible intellectual property, what we might call, to coin a phrase, "IP commercial law".

Of course, it may be hard to visualize what an IP commercial contracting law might look like in the abstract. Therefore, we have enclosed with this chapter a modest "Model Intellectual Property Commercial Law". We hasten to add that this is merely an idea of what such a law might look like, not what it should be. The proposal is thus made to facilitate discussion. Some parties may believe that additional or alternate provisions are necessary or desirable. We also come from a common law tradition, and parties from other traditions, such as civil law, may take a different approach on specific provisions. However, we have found that it is much easier to focus discussion if there is a concrete proposal from which to start. That is the purpose of the attached proposal. Before turning to a discussion of individual sections of the Model Law, however, we begin with some general observations.

## 2. GENERAL OBSERVATIONS

In order to place our proposed Model Law in context, it would be helpful to begin with a few general observations about what we have called "IP commercial law".

### 2.1 The Place of IP Commercial Law

The first observation involves the different legal regimes that be involved in considering an IP commercial law and how such a law would fit within those regimes.

- (a) *Intellectual Property Law*: the first legal regime is IP law itself. It mainly operates as "regulatory" law in that it focuses on recognition and enforcement of the *property* right, with specific requirements for so doing. While some IP statutes might regulate some contract terms, such as a requirement that assignments be in writing, by and large IP law lets other laws deal generally with contracts involving intellectual property. In the first instance, of course, an IP commercial law must defer to applicable mandatory rules in IP law itself. Thus, an IP commercial *contracting* law should not in itself create or diminish an IP *property* right, although enforceable contract terms may be appropriate to secure the right, such as a confidentiality agreement needed to maintain proprietary (trade secret) information. The point is that an IP commercial law should support contractual dealings in the property right consistent with IP law.

- (b) *General Contract Law*: this second legal regime is a state's general contract law. This is an "enabling" law in that it provides rules for forming, interpreting and enforcing voluntary agreements in general. Typically, "in general" applies to a wide variety of contracts, and so usually does not address specific contract terms, except in special cases. One part of general contract deals with the legal capacity of parties to make enforceable contracts, for example by minors, married partners, persons of unsound mind, juridical entities, felons, etc. Another part deals with consent, such freedom from fraud, duress or mistake, and general commercial obligations of fair dealing. These general principles often represent national policies that apply across a spectrum of contractual arrangements, including IP contracts, and thus may not need specific treatment for IP.
- (c) *General Commercial Law*: there may also be laws that apply to commercial practices generally, and that would also naturally apply to transactions in IP. This may include requirements in competition law, consumer protection law, law of agency and employment, secured financing law and the like. Again, these general principles can represent national policies that will apply to commercial practices generally and so do not need specific treatment for IP.

An IP commercial law should fit harmoniously within these other bodies of law. Typically, an IP commercial law will defer to them, except for specific rules of contract applicable within its field. This brings up a consideration of the nature of commercial law.

### 2.2 IP Commercial Law as Enabling Law

An IP commercial law is first and foremost an "enabling" law. In this it differs from IP law proper. As mentioned, IP law is more "regulatory" in that it provides rules directing specific results for the property right. Commercial law, in contrast, is an "enabling" law in that it seeks to support commerce by validating common practices while allowing parties autonomy to tailor its application 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 is, it supplies a base-line set of contracting results that parties would likely have included anyway had they bargained about them. Parties can thus simplify their dealings by relying on the default rules in the commercial law if they desire. However, parties also have autonomy to modify the result for specific cases, other than certain bedrock principles like obligations of fair dealing. Thus, the goal of commercial law is more descriptive than proscriptive; that is, its goal

comparable to an assignment, then references in this law to "assignment" apply to such an exclusive license *mutatis mutandis*.

#### **Article 11: Electronic Contracts**

Parties may form and perform an intellectual property contract by electronic means to the same extent as for other contracts under the laws of this State.

### **CHAPTER III: INTERPRETATION**

#### **Article 12: Integration**

Parties to an intellectual property contract may agree that a writing evidencing the terms of their contract represents the final expression of their agreement. In that case the terms of the writing may not be contradicted by evidence of an earlier agreement or contemporaneous oral agreement, but they may be explained by practical construction in accordance with the next Article unless the contract limits its construction to the terms of the writing.

#### **Article 13: Practical Construction**

- (a) The meaning of the terms in an intellectual property contract may be explained by evidence of conduct between the parties in the same or other transactions that establishes a common basis for interpretation and by evidence of applicable customary professional practices of which the parties were or should have been aware.
- (b) The express terms of an intellectual property contract, along with evidence of other conduct of the parties and applicable customary practices, should be construed consistently with each other where feasible, but in case of inconsistencies express terms prevail over conduct and custom, and conduct prevails over custom.
- (c) Terms in an intellectual property contract relating to successive performances relate to such performances without the necessity of restatement unless otherwise expressly required.

#### **Article 14: Amendment**

An intellectual property contract that is evidenced by an executed writing which precludes amendment except by another executed writing may not otherwise be amended.

#### **Article 15: Interpretation of Transfers**

- (a) The scope of a transfer should be interpreted under ordinary principles of contract interpretation in light of the intellectual property involved and the commercial context except where applicable intellectual property law requires a different rule, such as requiring interpretation in favor of a transferor.
- (b) An assignment of intellectual property includes the right to use the intellectual property within the scope of the assignment by all methods then existing or later developed whether or not anticipated at the time of contracting unless the assignment states otherwise.
- (c) A license of intellectual property does not authorize use of the intellectual property by methods not anticipated at the time of the contracting unless the license states otherwise.

### **CHAPTER IV: WARRANTIES**

#### **Article 16: Express Warranty**

An express warranty arises from a definitive affirmation in an intellectual property contract by a party that a fact is true on which the other party was intended to and did rely in entering into the contract, but statements of opinion or aesthetics do not create any warranty.

#### **Article 17: Implied Warranty Of Title In Assignments**

An assignor impliedly warrants to the assignee that the assignor owns or controls the ownership interest in the intellectual property within the scope of the assignment and has not previously transferred such interest to any other party.

#### **Article 18: Failure of Warranty**

In an intellectual property contract a warranting party agrees to hold the other contracting party harmless from any liability to a third party due to the failure of a warranty by the warranting party up to the value of the consideration received by the warranting party in the contract.

common law, there seems to be more reluctance to acknowledge a free assignability of intellectual property license rights.

**2.3.2.5 Inclusion into the estate and realization of license rights as main issues under Swiss and German law** The issues of whether licenses obtained by the bankrupt debtor can be included into the estate, and whether their value can be realized to the benefit of the estate, are to a large extent unsolved under Swiss and German law. Under both jurisdictions, there are various impediments which might be driven by intellectual property law, bankruptcy law or contract law-related aspects. In all instances, the justification of such impediments can be challenged with good reason. The U.S. regime appears to follow a more straightforward approach by expressly permitting the assignment of license rights out of the bankrupt estate. Such an approach aligns and better takes into consideration the interests of all the involved parties and other stakeholders.

## 2.4 Contractual Solutions

### 2.4.1 Issues and interests

In light of the risks and uncertainties a bankruptcy in particular of the licensor can bring along, a most crucial question for the contracting parties and their legal advisors is whether and to what extent effects of a bankruptcy to a license agreement can be modified or excluded by means of contractual terms.

Careful contract drafting should address, to the best possible extent, risks or uncertainties that may arise for one party in the case of financial distress of the opposite party. The imponderabilities affecting the treatment of license agreements in a bankruptcy are numerous, and the question of whether and how a license will survive a bankruptcy is not only crucial for the contract parties themselves, but can also be of the highest relevance for other stakeholders, such as, for example, those who provide financing in relation to the exploitation of intellectual property.

The parties to a contract therefore will try as hard as possible to foresee the possible treatment of their license agreements in a bankruptcy and to cover any potential pitfalls in the contract. Drafting techniques and considerations in this regard can range from the use of simple boilerplate provisions up to the most sophisticated contractual schemes.

For the (limited) purposes of this chapter, amongst the various pertinent contract clauses and structure schemes, two particular kinds of contract clauses will be assessed further.

- “Survival clauses” (see below 2.4.2.), the goal of which is to avoid the loss of a license in case of bankruptcy of the licensor and which are of utmost interest mainly for the non-bankrupt licensee; and
- “Termination clauses” (see below 2.4.3.), which aim to terminate license agreements upon bankruptcy and which can be in the interest or disinterest of either of the parties.

### 2.4.2 “Survival clauses”

The term “survival clauses” as used hereafter encompasses both clauses that aim directly to have an effect that a license survives bankruptcy (by spelling out that the license should survive a bankruptcy), or that set out other particular elements which may (indirectly) result in a license becoming bankruptcy-resistant.

Beyond mere survival of license rights, further-reaching contract provisions seek to assure a continued use of the intellectual property in question even without the necessity of (still) relying on a license. This can be achieved, for example via accrual clauses (providing for a license right to be converted into or to be replaced/novated by an assignment of rights to the intellectual property in question in the case of bankruptcy) or via option rights or rights of first refusal (providing for an option to acquire the (licensed) intellectual property right in the case of bankruptcy of the licensor). Comparable effects can also be achieved via escrow constructions and clauses. These types of clauses are not further addressed below; it should merely be noted that most of these clauses are quite problematic under a bankruptcy perspective and that they will often not be effective. This is particularly true if they attempt to dispose over assets that belong to the estate (such disposition is the exclusive reserve of the bankruptcy administration). Also, claims and entitlements for specific performance under such clauses might under art. 211 al. 1 DCBA (automatically) be converted into monetary claims and any related dispositions that were made pre-bankruptcy might be subject to avoidance.

Under Swiss bankruptcy law, both direct and indirect survival clauses that are aimed against the estate are without effect and are not enforceable. The reason is that art. 211 DCBA and the right of the administrator to opt for or against specific performance deriving therefrom form part of the law governing the bankruptcy procedure and as such they are mandatory.<sup>36</sup> It is to be noted that, nonetheless, certain licenses granted by a bankrupt debtor might survive the bankruptcy. This can be the case if license agreements,

<sup>36</sup> In relation to rights of first refusal it is sometimes argued that they cannot apply since a sale out of a bankrupt estate is not a voluntary sale. Furthermore, the treatment of rights of first refusal to immovables is different.

circumstances the publisher is the executing party of the characteristic performance.<sup>22</sup>

Furthermore, given the complex nature of certain agreements the best way to avoid arbitrary or forced solutions is to accept the limitations of the characteristic performance doctrine. Indeed, in very complex contracts whose structure and content have little in common with typical transfer or license agreements, it seems appropriate to conclude that it is not possible to determine the party who is to effect the characteristic performance. This may be the case, for instance, in certain agreements which are common in the software industry, such as joint development agreements or developer-publisher license agreements involving close cooperation between the developer and the publisher even before the development begins.

#### 4.4 Closest Connection

The closest connection test is the basic approach in many systems concerning the determination of the law applicable to contracts in the absence of a choice by the parties. Within the framework of the Rome I Regulation, article 4 (3) provides that the law indicated in Article 4 paragraphs 1 and 2 shall not apply if the contract manifestly exhibits a closer connection with another country. Although the functioning of the escape clause requires restraint to ensure reasonable certainty, such a clause may be relevant in an important number of situations concerning contracts relating to IP rights.

With a view to determining if such a manifest closer connection exists, a relevant factor is the existence of a very close relationship of the contract in question with another contract or contracts, as stated in the Preamble to the Rome I Regulation (paragraph 20). This element may be relevant in situations where international transfer or license of IP rights are a part of a broader and more complex project arranged through a number of contracts. For instance, it may be that a license agreement appears as functionally subordinate or accessory to the main agreement that covers the central aspects of the cooperation project, such as a joint-venture. Under those circumstances, it is possible that there are good practical reasons to appreciate that a manifest closer connection exists with the law applicable to the other contract(s) concerning the project and hence to decide that the various contracts arising out of the project are to be governed by the law of the same

<sup>22</sup> Muriel Josselin-Gall, *Les contrats d'exploitation du droit de propriété littéraire et artistique* (GLN July 1995), pp. 310 et seq; Eva Inés Obergfell, "Verlags- und Filmverträge", in Christoph Reithmann and Dieter Martiny (eds), *Internationales Vertragsrecht* (6th ed., Otto Schmidt 2004), pp. 1294–1297.

country, provided that a choice of law has not been made by the parties in the license agreement.

With respect to agreements whose main object is the transfer or license of an IP right, it should be noted that the specific nature of their subject matter may decisively affect the existence of special links between the contract and a given country. The view that a contract whose object is IP rights of a given country is clearly most closely connected with that country (country of protection) has found significant acceptance. These exclusive rights are limited to specific territories and to the extent that a contract only refers to the rights of a single country, it is certain that most facts and activities relevant to the performance of the contract shall always take place in the country of protection. The scope and effects of those rights are limited to the territory of the state that grants them, and hence, they can only be exploited within the country of protection. The performance of the contract requires that both parties perform continuous obligations in that territory.

Additionally, the law of protection, as a result of the mandatory conflict of law rules on IP rights, shall govern certain issues relevant to the contract regardless of the law of the contract. As already noted, those issues usually cover, in particular: the existence, validity, duration, scope and contents of the exclusive rights; whether and under what conditions a right may be transferred; the conditions under which licenses can be granted and whether and under what conditions a transfer or license is effective against third parties. Given that a breach of contract may take the licensee's activity into the area of infringement, there is significant interplay between the law of the contract and the law applicable to non-contractual obligations. Furthermore, because the main obligations arising out of the contract have to be performed in the country of protection, overriding mandatory provisions of that country such as antitrust laws are normally applicable to the contract due to its close connection with that country. In the case of agreements on copyright, specific rules establishing limits on transferability and the extent and conditions of transfers and licenses are an important part of national copyright legislation aimed at protecting the author as the weaker party in typical contractual situations. Such provisions usually fall under the scope of application of the *lex loci protectionis* as a result of the conflict of law rules on IP rights and therefore apply regardless of the law applicable to the contract. That approach ensures the protection of authors in international contracts. Given this situation, it can be concluded that the contract is to a great extent integrated in the sphere of the country of protection.<sup>23</sup> Although

<sup>23</sup> The idea that transfer and license contracts whose subject matter is IP rights of only one country are manifestly more closely connected with the country of protection may to a certain extent be founded on the same rationale as the special

An exclusive license grants to a sole licensee an exclusive territory, period and way of exploitation of intellectual property rights. No one, including the rights owner, may exploit the intellectual property right under the exclusive license. For example, once a copyrights owner voluntarily concludes a collective management agreement with a collecting society, the collecting society acquires the exclusive license, which excludes both the copyrights owner and any third party from exercising the rights under the agreement within the designated period and scope.<sup>11</sup>

A sole license grants the only licensee an exclusive territory, period and way of exploitation of intellectual property rights. No third party may exploit the intellectual property right under the sole license with the exception of the rights owner.

A non-exclusive license grants the licensee the right to exploit intellectual property rights in certain territory, period and in a certain way. The rights owner may not only exploit the intellectual property right, but, may also, by way of license, enable any third party to exploit the intellectual property right.

In cases of infringement disputes, an exclusive licensee may independently sue the third-party infringer; a sole licensee may sue the third-party infringer jointly with the rights owner, or independently provided that the rights owner fails to take legal action; a non-exclusive licensee may only sue upon the clear authorization from the rights owner.

### 1.3 Validity of Licensing Agreements

#### 1.3.1 Written form

Article 10 of the Chinese Contract Law provides that contracts shall have such written forms as prescribed by the relevant laws or administrative regulations. Chinese intellectual property law requires that certain categories of licensing agreements shall be in a written form and/or be recorded with the competent authorities.

Under the Implementation Regulations of Chinese Copyright Law (Articles 23, 25), an exclusive or sole license of a copyright work shall be in written form, except for licensing a newspaper or periodical to publish the work, and may be recorded with the copyright authority, i.e. National Copyright Administration of China (NCAC). Under the Regulations for the Protection of Computer Software, an exclusive or sole software licensing must also be made in writing. The signatures of both parties are required to conclude a written contract (Article 19). Under the Regulations for the

Protection of Layout Design of Integrate Circuits (Article 22), a licensing for layout design of integrated circuit shall be in written form.

The requirement in written form, however, is not generally understood to be mandatory by the courts. Under the Chinese Contract Law and Supreme People's Court's interpretations on the implementation of Contract Law, if a contract has been genuinely and validly concluded, the absence of some of these terms would not make the contract unenforceable. In such a case, the contract may be enforced in such a way that a court may complete by recourse to contractual or legal presumptions or other means of construction. For example, where one party has performed its principal obligation and the other party has received such performance, the contract is legally binding on the parties, rather than null and void.

#### 1.3.2 Standard terms

Non-exclusive licensees in standard terms shall comply with the pertinent legal requirements regarding non-conscionable clauses. Standard terms are clauses which are prepared in advance for general and repeated use by one party and which are not negotiated with the other party in concluding a contract.

Under Chinese Contract Law, where standard terms are integrated within a contract, irrespective of business to consumer contracts or business to business contracts, the party who supplies the standard terms shall define the rights and obligations of the parties by abiding to the principle of fairness, request the other party to note the exclusion or restriction of its liabilities in reasonable ways, and explain the standard terms according to the requirement of the other party.<sup>12</sup>

If a dispute over the understanding of the standard terms occurs, it shall be interpreted according to the general understanding. Where there are two or more kinds of interpretation, an interpretation unfavorable to the party supplying the standard terms shall be preferred. Where the standard terms are inconsistent with non-standard terms, the latter shall be adopted.<sup>13</sup>

When the party who supplies the standard terms exempts itself from its liabilities, increases the liabilities of the other party and excludes the rights of the other party, the terms shall be null and void.<sup>14</sup> Standard terms on immunity of liability of those that cause personal injury to the other party, or cause property damages to the other party as a result of deliberate intent or gross fault, shall be null and void.<sup>15</sup>

<sup>11</sup> Regulations on Copyright Collective Management, Article 20.

<sup>12</sup> Chinese Contract Law, Article 39.

<sup>13</sup> Chinese Contract Law, Article 41.

<sup>14</sup> Chinese Contract Law, Article 40.

<sup>15</sup> Chinese Contract Law, Article 53.

## 19. The need to harmonize intellectual property licensing law: a European perspective<sup>1</sup>

*Jacques de Werra*

### 1. INTELLECTUAL PROPERTY LICENSING AS A KEY ELEMENT OF INNOVATION POLICY

The key role of intellectual property in the shaping of a successful innovation policy has been duly identified in Europe as well as in many other parts of the world: intellectual property constitutes an important component of the regulatory architecture supporting a competitive knowledge-based economy. This role was confirmed in numerous official EU documents and statements, particularly in the Communication of the EU Commission of May 24, 2011, which states that “European IPR legislation must provide the appropriate ‘enabling framework’ that incentivizes investment by rewarding creation, stimulates innovation in an environment of undistorted competition and facilitates the distribution of knowledge.”<sup>2</sup> The European Commission even expressed the view that “IP is the capital that feeds the new economy”. This focus on intellectual property should however not hide the fact that intellectual property rights, as well as the intellectual property regulations which protect them, cannot make miracles by themselves and cannot fully achieve the declared goal of feeding the new economy if intellectual property rights as commercial assets cannot be put to efficient use by third parties with the authorization of the IP owner. This was duly confirmed by the European Commission which stated that a “better use of IP portfolios by means of licensing and commercial exploitation is central to successful business models”.<sup>3</sup>

<sup>1</sup> A previous version of this chapter was published in Jan Rosen (ed.) containing the proceedings of the ATRIP Conference 2011 IP Law at the Crossroads of Trade (Edward Elgar 2012).

<sup>2</sup> Single Market for Intellectual Property Rights Boosting creativity and innovation to provide economic growth, high quality jobs and first class products and services in Europe (COM(2011) 287 final).

<sup>3</sup> *Ibid.*

This consequently requires that the stakeholders (intellectual property owners and users) shall be in a position to rely on and have trust in a clear and predictable regulatory framework which shall not only define and protect intellectual property rights as such but shall also enable and facilitate intellectual property *transactions* and most particularly intellectual property *license transactions*.

In other words, an efficient intellectual property policy, which shall generate equitable benefits for all stakeholders, must not be limited to the definition of the exclusive intellectual property rights and of their limits (which are the classical issues governed by intellectual property regulations), but shall also include policies on the commercialization of such intellectual property rights by way of contracts: such policy must also regulate intellectual property commercial law.<sup>4</sup>

Even if the central role of intellectual property transactions as well as the need to facilitate and promote them have been duly identified (particularly by the European Commission), there are at present no global or even European policies governing intellectual property commercial law, and specifically intellectual property licensing law. Indeed as of today there is no uniform body of law governing intellectual property licensing transactions within Europe, even if complex intellectual property licensing issues have been recently litigated up to the European Court of Justice.

On this basis, the goal of this chapter is to discuss certain aspects of European intellectual property licensing law in the light of recent case law and regulations to show that there is a need to develop a more unified framework governing intellectual property licensing law in Europe.

<sup>4</sup> Reference should be made here to the remarkable project (proposed at the UNCITRAL Third International Colloquium on Secured Transactions, March 1–3, 2010, Vienna, <http://www.uncitral.org/uncitral/en/commission/colloquia/3rdint.html>, last accessed May 2, 2012) for a “Concept Proposal for a Model Intellectual Property Contracting Law” (drafted by L. Brennan and J. Dodd) who rightly state that “Intellectual property (‘IP’) assets have become important in everyday global commerce. [...] The world economy has experienced profound changes, with information products and services now driving increased productivity and growth. 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 contracting practices involving IP”; one specific area which shall not be addressed in this paper is the issue of the treatment of license agreements in bankruptcy proceedings, and particularly in the bankruptcy of the licensor in which scenario local bankruptcy rules significantly diverge which can lead to important difficulties; for a recent illustration, see in *Re Qimonda AG*, 2011 WL 5149831 (Bankr. E.D.Va. 2011) (protecting U.S.-based licensees of a German bankrupt licensor under the protective U.S. bankruptcy rules which are favorable to licensees).