

## Question Q241

**National Group:** France

**Title:** **IP licensing and insolvency**

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## Questions

### I. Legislation and practices in force

Groups are invited to answer the following questions under their national laws. If both national and regional laws apply to a set of questions, please answer the questions separately for each set of laws.

- 1) Does your country have a registration system for IP licenses? If yes, please describe this system.

Yes, with regard to licenses of [industrial property rights obtained by way of filing](#):

- patent licenses (Article L. 613-9 of the French Intellectual Property Code (CPI) and Rules 23 and 24 EPC);
- French or Community trade mark licenses (Article L. 714-7 CPI and Article 22(5) of Regulation 207/2009 of 26 February 2009 on the Community trade mark);
- French design or Community design licenses (Article L. 513-3 CPI and Article 32(5) of Regulation 6/2002 of 12 December 2001 on Community designs);
- licenses for French plant variety rights (Articles L. 623-24 and L. 613-9 CPI).

These registrations are carried out with the offices which hold the corresponding registers (French National Intellectual Property Institute (INPI), Office for Harmonization in the Internal Market (Community trade marks and designs) and European Patent Office).

The sole effect of these registrations is to render the rights enforceable against third parties, and there is no time limit for making them (possible at any time, including during infringement proceedings).

On the other hand, there is no system for the registration of licences for other IP rights which by their very nature are not referenced because they are not filed, in particular all literary and artistic rights (copyright and related rights).

- 2) Describe the type or types of bankruptcy and insolvency proceedings that are available in your country.

In accordance with paragraph 5 of the Working Guidelines, the consensual pre-insolvency *ad hoc* and conciliation proceedings, the purpose of which has traditionally been to put in place a moratorium with regard to liabilities, generally bank liabilities, will not be considered.

Thus, the remaining procedures to be examined are safeguard (*sauvegarde*), rehabilitation (*redressement judiciaire*) and judicial liquidation proceedings (*liquidation judiciaire*), together 'bankruptcy or insolvency proceedings'.

Safeguard, which has existed since 2005, is only open to companies that are not legally in a state of insolvency (which corresponds to their available assets not being able to match their current liabilities). This procedure is generally applied for in the event of one-off cashflow difficulties, such as large debts not being paid, termination of overdraft facility, etc., and not in the event of structural difficulties. An observation period fixed by the legislation at 6 months, which can be renewed once for the same length of time, and can in exceptional cases be extended for a maximum of a further 6 months upon the request of the Public Prosecutor, begins at the same time as the judgment opening the proceedings is given. The purpose of this observation period is to allow the debtor to present a plan for safeguarding the company.

For their part, rehabilitation proceedings are open to companies in a state of insolvency which nevertheless have the necessary cashflow to continue operations. An observation period fixed by the legislation at 6 months, which can be renewed once for the same length of time, and can in exceptional cases be extended for a maximum of a further 6 months upon the request of the Public Prosecutor, begins at the same time as the judgment opening the proceedings is given. The purpose of this observation period is to allow the debtor to present a plan for rehabilitating the company or to undertake a plan to sell all or part of the company.

Finally, judicial liquidation proceedings are also opened in the event of insolvency, when the cashflow situation prohibits any continuation of operations.

In these three procedures, a creditors' representative is automatically appointed.

In addition, for the purposes of safeguard and rehabilitation proceedings, a judicial administrator (“bankruptcy administrator” or “administrator”) is nominated. His role is to monitor or assist (safeguard proceedings) or to assist or represent (rehabilitation proceedings) the company during the observation period. He has the capacity of an officer in the proceedings, and is traditionally appointed as administrator for the implementation of the plan following the adoption by the court of the safeguard plan, the rehabilitation plan or the sale plan.

In the context of judicial liquidation proceedings, the liquidator, who represents the debtor, proceeds with the sale of the assets (including IP rights), upon the decision of the bankruptcy judge.

Finally, we note that the Ordinance of 12 March 2014 relating to the reform of prevention of companies’ difficulties and bankruptcy or insolvency proceedings instituted a new procedure of expedited safeguard, which is open only to a debtor who has been the subject of a conciliation procedure in the event of the failure of the latter.

This Ordinance in addition provides the possibility for the court to adopt a rehabilitation plan presented by a creditor which is in competition with the plan presented by the debtor itself.

- 3) Does the law that governs bankruptcy and insolvency proceedings in your country address IP rights or IP licenses as distinct from other types of contracts, assets, and property rights? If yes, is the law statutory, regulatory, or based on precedent? Please identify any relevant statutes or regulations.

No, in virtually all cases no distinction is made between, on the one hand, IP rights and licenses relating to these rights and, on the other hand, other types of property rights and contracts in the legislation relating to bankruptcy or insolvency proceedings (Commercial Code).

The only exception is in the case of copyright, where the Intellectual Property Code (CPI) deals specifically with publishing agreements (Article L. 132-15) and audiovisual-production agreements (Article L. 132-30) in the case of, respectively, the publisher or the producer being under safeguard, rehabilitation or judicial liquidation proceedings, in the purpose of preserving the author’s rights (**see question 4a**).

- 4) Please answer the following sub-questions based upon the law and jurisprudence in your country that governs bankruptcy and insolvency proceedings:

- a) Describe the law and its effects on a bankruptcy administrator’s ability to adopt, assign, modify, or terminate an IP license.

In safeguard and rehabilitation proceedings, in which operations are normally continued during the observation period, the administrator is responsible in particular for supervising the maintenance of the assets of the company. In judicial liquidation proceedings, the role of the liquidator may involve the realisation of the debtor’s assets by way of a global or separate sale of its rights and assets.

**1. Current contracts.** In general, the opening of the safeguard, rehabilitation or judicial liquidation proceedings does not automatically terminate current contracts (Articles L. 622-13, L. 631-14 para. 1 and L. 641-11-1 of the Commercial Code).

With the exception of the specific provisions of the French Intellectual Property Code with regard to publishing and audiovisual-production agreements, which reflect the generally applicable legal principle of the continuation of contracts (Articles L. 132-15 and L. 132-30 CPI), the legislation that applies to the powers of the administrator or the liquidator in bankruptcy or insolvency proceedings does not contain any provisions relating specifically to IP licenses.

IP licenses, which are treated like other agreements, are generally deemed to be current if royalties are regularly paid by the licensee in consideration for the use of the rights granted. In the case where a one-off payment has already been made (in particular in the case of licenses over software packages), there is in principle no risk of the license being downgraded to the status of an instantaneous agreement, because of the other obligations entered into (maintenance services, inclusion of improvements, assistance) and given that the term of the license granted is of a limited duration.

The regime relating to current contracts applies even to agreements entered into *intuitu personae* (Cass.com. [French Supreme Court commercial cases], 8 December 1987, no 87-11501 for bank agreements). In this regime, only the administrator or the liquidator has the capacity to decide to terminate or continue current contracts.

**2. Power of the administrator to terminate or continue IP licenses.** During the observation period of the safeguard and rehabilitation proceedings, the administrator alone has the right

- to require current contracts to be continued (by then performing the service and, where appropriate, making the payments)
- or to opt to terminate them, by an express or tacit decision:
  - expressly, on condition that the termination is necessary to safeguard the debtor and does not excessively prejudice the interests of the co-contracting party. The termination should be declared by the bankruptcy judge upon the request of the administrator;
  - tacitly, if a formal notice asking the administrator to state its position that was sent by the co-contracting party to the administrator has not been responded to within a month. The agreement is then terminated automatically (it should be noted that this is not applicable in the case of the expedited safeguard procedure deriving from the Ordinance of 12 March 2014).

The termination may give rise to damages to the co-contracting party.

In the case of agreements with phased payments, such as royalties in an IP license, the administrator regains, before each deadline, his right of unilateral termination if it appears that the licensee debtor will not have the necessary funds to pay the next instalment.

Essentially the same rules apply to judicial liquidation proceedings (Article L. 641-11-1 of the Commercial Code).

**3. No power of unilateral amendment.** When it is maintained, the agreement regains its full binding effect. It must be continued and performed by the parties in accordance with its provisions.

The administrator or the liquidator does not have the power to amend it unilaterally. Thus, for delays in payment to be obtained, these must be accepted by the co-contracting party.

**4. Power to assign IP licenses.** Rehabilitation or judicial liquidation proceedings may result in a sale plan which, if it is approved by the court, leads in particular to the assignment of the agreements for the supply of goods and services that are necessary for carrying on the business (Article. L. 642-7 of the Commercial Code) **(see also questions 7 & 8).**

While the French Supreme Court has declared that the regime relating to the continuation of current contracts is applicable to agreements entered into *intuitu personae* (Cass. Com. 8 December 1987, cited above), the substitution of a contracting party – which the assignment of the agreement entails – seriously compromises this personal element, which may have been a decisive factor in the parties giving their agreement and may have an effect on the proper performance of the agreement.

However, as Article L. 642-7 of the Commercial Code does not distinguish between agreements entered into *intuitu personae* and other agreements, this issue cannot be considered to be a cause for automatic derogation from the public policy provisions of that article (see Court of Appeal (CA) of Douai, 8 March 1990, which decided that the necessity of the contract for the carrying on of the business is the only condition required for compulsory assignment, and also CA of Colmar, 13 June 1990, emphasising that the Supreme Court confirmed the administrator's right to claim continuation of current contracts during the observation period without any distinction being able to be made depending on whether or not the agreements were entered into in consideration of the person involved (Cass. com. 8 December 1987, cited above) and adding that the only criterion is the usefulness of the agreement with regard to the objective of carrying on the business of the company).

*Intuitu personae* can pertain either to the personal relationships existing between the parties or to the very nature of the agreement, and it generally applies for IP licenses (except, for example, in the case of a FRAND license or compulsory license).

Thus, in the context of a sale plan, the court may compel the assignment of agreements entered into *intuitu personae*, and thus of IP licenses.

However, there are exceptions to this compulsory assignment, in particular when *intuitu personae* is associated with an obligation on the part of the debtor, such as a maintenance obligation, technical assistance obligation or obligation to communicate knowhow (in particular with regard to patent licenses or franchise agreements) **(see also question 7).**

Thus, in the case of a franchise agreement where the franchisor is subject to a bankruptcy or insolvency proceeding, the assignment of the franchise agreement appears to be a difficult question; this is because the services provided by the franchisor are inherent to the person of the debtor franchisor, and substituting a buyer for the franchisor would have the consequence of altering the object of the franchise agreement, which provides knowhow and expertise to the franchisees (CA of Paris, 15 December 1992; CA of Versailles, 28 March 1996).

In the event of a liquidation leading to a sale of the assets, including a patent over which a license has been granted, the license is not terminated (Article L. 613-8 CPI para. 4 “*a transfer of rights ... does not affect the rights acquired by third parties...*”, CA of Douai, 26 September 1994). This solution does not specifically relate to sales resulting from bankruptcy or insolvency proceedings, but it should also apply in that case.

**5. Power to enter into new IP licenses.** The administrator’s power to enter into new licenses depends on the duties given to him by the court and the greater or lesser degree to which he is allowed to be involved in the management of business.

In safeguard proceedings, the administration of the company is carried out by its managing director, who continues to carry out acts of disposal and administration (Articles L. 622-1 et seq. of the Commercial Code). Nevertheless, the administrator is given a supervisory role which requires his authorisation for all acts of management, or for some of them. The administrator can then be called upon to authorise the granting of a new license over the IP rights held by the debtor.

In rehabilitation proceedings, the administrator may in addition be given a management role in which he represents the legal person and acts on its behalf and for its account (Article L. 631-12 of the Commercial Code). In this capacity, he alone then has the power to have the company enter into a new license, as licensor or licensee, provided that this license is compliant with the objective pursued by the rehabilitation proceedings.

Nevertheless, regardless of the scope of the administrator’s role, acts of day-to-day management performed by the debtor alone are deemed to be valid with respect to third parties acting in good faith. The taking or granting of an IP license may therefore, if it is part of the day-to-day activities of the company, still be carried out without the administrator.

In judicial liquidation proceedings, the debtor is no longer in charge of the administration and disposal of its assets and is represented, as far as the rights and actions associated with its assets are concerned, by the liquidator (Article L. 641-49 of the Commercial Code). The liquidator thus carries out the duties usually delegated to the administrator.

## **6. Provisions specific to publishing and audiovisual-production agreements**

As far as copyright is concerned, specific provisions, which protect the author, have been laid down in respect of publishing and audiovisual-production agreements (Articles L. 132-15 and L. 132-30 of the Intellectual Property Code). These provisions expressly state:

- that where, respectively, the publisher or producer is subject to the safeguard or rehabilitation proceedings, this **does not lead to the termination** of the publishing or audiovisual-production agreement;
- with regard to publishing, that in the event of a continuation of business by application of Articles L. 622-13 et seq. of the Commercial Code, all of the publisher’s obligations to the author must be met and,
- with regard to audiovisual matters, where the realisation or exploitation of the work is continued, the administrator is obliged to comply with all of the producer’s obligations, in particular with regard to the co-authors;



- that, in the event of the sale of the publishing company, ordered by application of Article L. 642-5 of the Commercial Code, the acquirer is bound by the seller's obligations. There is thus a genuine assignment of the publishing agreement. In the event that the company ceased its activity over three months ago or where judicial liquidation proceedings are authorised, the author may, under the terms of paragraph 4, request the termination of the agreement, without it being possible for the assignment of the intangible assets operated by the liquidator to be imposed upon him (TGI of Paris, 5 January 1996). In addition, the liquidator may not undertake the clearance sale of the copies produced or their realisation under the conditions provided for in Articles L. 622-17 and L. 622-18 of the Commercial Code until fifteen days after it has warned the author of its intention by registered letter with a request for acknowledgment of receipt. The author has a right of pre-emption in respect of all or some of the copies. In the absence of agreement, the buyback price will be fixed by an expert (CPI, Article L. 132-15);
- that, in the event of the sale of all or part of the producer's company or of liquidation, the administrator, the debtor or the liquidator, depending on the circumstances, is obliged to establish a separate lot for each audiovisual work which may be the subject of sale or auction. It must advise each of the authors and co-producers by registered letter one month before any decision with regard to the sale or any auction procedure, on pain of nullity. The acquirer is likewise bound by the obligations of the seller. The author and the co-authors have a right of pre-emption over the work unless one of the co-producers declares that it is acquiring it. In the absence of agreement, the sale price is fixed by an expert.

As in the case of publishing, the author and the co-authors may request the judicial termination of the audiovisual-production agreement when activity ceased more than three months ago or when liquidation is ordered (CPI, last paragraph of Article L. 132-30).

- b) Are equitable or public policy considerations relevant to how an IP license is treated?

French law on bankruptcy or insolvency proceedings is a matter of public policy and therefore applies, in general, to IP licenses. This is the case in particular for the rules set out above (**question 4 a**).

It may be considered that these rules contain certain equitable considerations within the meaning given to that term in paragraph 20) of the Working Guidelines.

Indeed, Article L. 622-13 IV of the Commercial Code provides that the termination of a current contract upon the request of the administrator can be ordered by the bankruptcy judge only on condition that it is necessary for the purposes of safeguarding the debtor and that it does not excessively prejudice the interests of the co-contracting party.

With regard to an IP license, and when the licensor is the debtor, the immediate termination of the license over a right which constitutes an important element in the activity of the co-contracting party – the licensee – could cause the latter excessive prejudice, especially in the absence of any alternative technology and/or if the licensee has made significant investments in anticipation of the use of the licensed right.

The same applies for *intuitu personae*, when it prevents forced assignment of IP licenses (**see questions 4 a** & **7**).

Finally, as noted in question 4 a), the decision by the administrator not to continue or to terminate the IP license under the conditions of the abovementioned Article L. 622-13 may give rise to damages to be paid to the co-contracting party.

In addition, in a general sense, the bankruptcy or insolvency proceedings are aimed *inter alia* at maintaining economic activity and employment. It can therefore be imagined that these “public policy” considerations guide the judge when he is called upon to authorise the termination or assignment of an IP license.

There are no statutory provisions which correspond to public policy considerations within the meaning given to that term in paragraph 19) of the Working Guidelines and which *per se* have an impact on IP licenses.

However, certain public interest rules may limit the powers of the administrator with regard to IP licenses.

An example of such a rule is the ex officio and compulsory licenses provided for in Article L. 613-11 of the CPI with regard to patents (and in Articles L. 623-17 et seq. of the CPI with regard to plant variety rights). These licenses may be in response to a public interest, in particular where they are *ex officio* licenses granted in the interests of public health (Article L. 613-16 CPI and Regulation (EC) 816/2006 of 17 May 2006), the national economy (Article L. 613-18 CPI) or national defence (L. 613-19 CPI).

The rights attaching to these licenses can only be transferred along with the business, the enterprise or the part of the enterprise to which they belong. In addition, requests for the assignment or the withdrawal of compulsory licenses or for the revision of the conditions under which they were granted are subject to the same conditions as requests to obtain them (Article R. 613-9 CPI).

Another example is the rules relating to competition law. They become relevant when the acquisition of all or part of the company that is the subject of the bankruptcy or insolvency proceeding falls within the ambit of merger control (Articles L. 430-1 et seq. of the Commercial Code). The acquisition may then be subject to the approval of the French Competition Authority, particularly with regard to the question of the impact on the market of the envisaged transfer of the IP licenses (whether the debtor is the licensor or the licensee).

The competition law rules may also be applicable when the IP licenses are licenses known as “FRAND” (*Fair, Reasonable and Non-Discriminatory*) licenses and relate to patents that have been declared to be essential to a standard. According to the European Commission Guidelines of 14 January 2011 on the Applicability of Article 101 of the TFEU to horizontal co-operation agreements, the issue of access to the standard, which is guaranteed in particular by “FRAND” licenses, constitutes an important criterion for the purposes of the assessment of whether a standardisation agreement restricts competition. Thus, the assignment of a FRAND license by the administrator to an operator who is not a party to the standardisation agreement and is not subject to a FRAND obligation, could, under certain circumstances associated with the competition conditions on the market in question, be considered to be a restriction on competition and thus be challenged.

- c) Is the law different for different types of bankruptcy and insolvency proceedings in your country?

The allocation of powers differs, depending on whether or not the administrator is appointed, in safeguard or rehabilitation proceedings.



Where there is an administrator, the latter is legally the only person who holds the power to continue or terminate an agreement, including an IP license, with or without a letter of formal notice.

In practice, he always sets out his position after obtaining the debtor's opinion. The decision to assign rights (assets) is always a decision for the bankruptcy judge (individual assignment) or the court (partial or total assignment) and of the administrator, who is necessarily appointed in this case.

In the absence of an administrator, it is the debtor, after obtaining the consent of the creditors' representative (*mandataire judiciaire*), who continues or terminates the agreement, on having sent a letter of formal notice. It is also the debtor, again after obtaining the consent of the creditors' representative, who asks the bankruptcy judge to terminate the agreement when there is no prior formal notice.

In the case of judicial liquidation proceedings, the liquidator alone holds the power to continue or terminate the agreement, with or without a prior formal notice.

- d) Does the law require, or give preference to, IP licenses that have been registered according to a registration scheme?

No, the registration of a license has no effect for the purposes of bankruptcy or insolvency proceedings: the rule is that all creditors are treated alike.

- e) Would the existence of a pledge of or security interest in the IP rights for the benefit of the licensee affect application of the law in the case of an insolvent licensor?

A pledge over an IP right appears to be subject to the existence of a determinable obligation, which in most cases corresponds to a sum of money.

In other words, it is not certain that a licensee can benefit from a pledge over an intellectual property right in order to obtain a guarantee of its right to exploit the licensed IP right.

In the absence of any provisions or any case-law on this point, the effectiveness of such a pledge is subject to doubt.

In addition, the benefit of a pledge over an IP right for the benefit of the licensee is limited because it grants to the latter a right to have the IP right allocated to it:

- Only in the context of judicial liquidation proceedings;
- If the debtor is not able to perform the obligation to which it is subject.

The licensee may present a request to the bankruptcy judge for the IP right to be allocated to it.

However, if the IP right is included in a plan for the sale of the company, there is a risk that the allocation will not be granted if it affects the integrity of the transferred whole.

- f) Is the law limited to or applied differently among certain types of IP rights (e.g., patents versus trade marks or copyrights)? If yes, please explain.

No distinction is made in the provisions of the Commercial Code on bankruptcy or insolvency proceedings in relation to the IP rights per se or to the rights of exploitation over these IP rights, except with regard to copyright, though only for publishing and audiovisual-production agreements, this being on the basis of the provisions of the Intellectual Property Code (**see question 4 a**).

- g) Does the law apply differently to sub-licenses versus “main” licenses?

The law does not apply differently to sub-licenses and “main” licenses. License and sub-license agreements are independent agreements which are terminated, continued or assigned in the same way.

When the licensor is under bankruptcy or insolvency proceedings and the license is continued or is assigned to a third party, the license and the sub-license are continued under the same terms because the acquirer has accepted the obligations provided for in the agreement; it cannot amend them without the agreement of the co-contracting party.

When the licensor is under bankruptcy or insolvency proceedings and the license is terminated upon the initiative of the administrator, the sub-license is also terminated for lack of subject matter.

When the licensee is under bankruptcy or insolvency proceedings, the administrator may decide:

- to maintain the license and terminate the sub-license;
- to continue or terminate both of them;
- to assign both of them because the sub-license is dependent on the existence of the license.

If the administrator terminates the sub-license, the sub-licensee cannot require a direct license from the licensor unless the licensor has expressly undertaken to grant one.

- h) Does the law apply differently to sole or exclusive licenses versus non-exclusive licenses?

The law does not apply differently to sole or exclusive licenses and non-exclusive licenses.

- i) Does the law apply differently if the bankrupt party is the licensee versus the licensor?

There is no provision which stipulates treatment which differs according to whether the bankrupt party is the licensee or the licensor.

Nevertheless, certain provisions are aimed at protecting a party to the agreement, which may be the licensee or the licensor.

This is the objective pursued in particular by the provisions relating to publishing agreements (L. 132-15 CPI) and audiovisual-production agreements (L. 132-30 CPI), which are aimed at protecting the author.

The courts may also prevent certain assignments of agreements in the context of bankruptcy or insolvency proceedings when there is a risk that the conditions for exploitation of the right granted will no longer be guaranteed to the licensee; for example in the case of the assignment of franchise agreements because *intuitu personae* is inherent to the personal and non-transferrable expertise and knowhow of the franchisor **(see questions 4 a) & 7)**.

- j) Please explain any other pertinent aspects of this law that have not been addressed in the sub-questions above.

1. In the absence of specific provisions, the courts authorise certain contractual arrangements in order not to put obstacles in the way of the continuation of the business of the co-contracting party.

Accordingly, the courts have authorised the introduction of a source code escrow clause in software license agreements in favour of the licensee (Cass. com., 8 January 2009, no. 07-20693).

If the proprietor of rights in a software program is placed in judicial liquidation proceedings and ceases trading, the source codes may not be transferred to the licensee. However, the licensee needs these codes to maintain and develop the software. The contracting parties have thus chosen to introduce an escrow clause into license agreements so as to entrust the source codes to a third party, a technical escrow.

In case the right owner enters in a bankruptcy or insolvency proceeding, the licensee will ask the administrator to invoke the escrow clause in order to obtain the source codes.

An administrator who does not apply the escrow clause is held liable to the licensee (CA of Aix-en-Provence, 11 September 2007).

However, the beneficiary of the escrow does not become the proprietor of the source codes, which remain among the assets of the debtor.

2. It is also useful to point out, again with regard to copyright, that authors benefit from a specific lien established by Article L. 131-8 of the CPI in the context of bankruptcy or insolvency proceedings.

This text has a similar effect to the lien enjoyed by employees.

Authors thus benefit from a general lien over the movable and immovable property of the debtor in respect of the payment of the royalties and remuneration due to them over the last three years in relation to the assignment, exploitation or use of their works.

However, authors do not benefit from the priority lien enjoyed by employees which allows them to be paid first.

- 5) Would a choice of law provision in an IP license agreement be considered during a bankruptcy or insolvency proceeding in your country? Is this affected by the nationalities of the parties to the IP license or by the physical location of the assets involved?

The French bankruptcy or insolvency proceedings law is of a public-policy nature and its application is territorial.

**1. In private international law based on domestic sources**, the principle is the application of the law where the bankruptcy or insolvency proceedings were opened, the *lex fori concursus*.

Thus, French law will be applied by the French courts that have jurisdiction to order the opening of a bankruptcy or insolvency proceeding against an economic actor present on French territory, this being with regard to all aspects of this proceeding and, consequently, in particular with regard to the treatment of agreements that are current as at the date on which the said proceeding is opened.

In this respect, the choice of a particular governing law to be applicable to the IP licence agreement is ineffective and will not be taken into account.

This jurisdiction of the French courts will be dependent on the company having a minimum degree of presence on French territory.

Accordingly, Article R. 600-1 of the Commercial Code provides that “*the court with territorial jurisdiction to deal with [bankruptcy or insolvency proceedings] is that within whose area of jurisdiction the debtor, which is a legal person, **has its registered office** or the debtor, who is a natural person, has declared the address of his company or of his business. If there is no registered office on French territory, the court with jurisdiction shall be the one within whose area of jurisdiction the debtor has the main centre of its interests in France*”.

By virtue of this article, the French courts may thus validly open bankruptcy or insolvency proceedings on the basis of a secondary establishment or a branch located in France, or even of a mere “*genuine commercial presence*” on French territory of a company that has its registered office in a foreign country if there is no international convention in force which gives jurisdiction to the court of the place where this foreign company has its registered office to open such bankruptcy or insolvency proceedings.

The concept of “*genuine commercial presence*” appears to be broader than that of a secondary establishment or branch.

Thus, while the presence of an establishment is generally required, the French courts have been able, for the purposes of deciding that they have jurisdiction, to take account of simple commercial relationships (old judgments) or the presence of immovable assets, for example premises leased for the exploitation of an activity in France entrusted to a sub-lessee, even if the only activity carried out in France is associated with the lease agreement, which is considered as a form of exploitation of these premises (Cass. com. 26 October 1999, no. 96-12946).

Furthermore, the French Civil Code contains rules, categorised as jurisdiction privileges, which the case-law has declared to be applicable to bankruptcy or insolvency proceedings (Cass. 2<sup>nd</sup> civ. 7 June 1962), and by virtue of which:

- A foreigner, even one not resident in France, may be summoned before the French courts in relation to the performance of obligations which he contractually owes to a French person in France or in a foreign country (Article 14 of the Civil Code);
- A debtor of French nationality may invoke the jurisdiction of the French courts, or be brought before such a court, in respect of debts contractually entered into in a foreign country (Article 15 of the Civil Code), even in the absence of a local establishment.

The application of this privilege based on nationality has led case-law to acknowledge the jurisdiction of a French court to order the opening of a bankruptcy or insolvency proceeding against a foreign debtor on the basis of the obligations contractually owed to a French creditor (Cass. com. 1<sup>st</sup> October 2002, no. 99-11858; this judgment also emphasises that the debtor had interests in France, the main centre of which was in the area of jurisdiction of the court).

2. More particularly with regard to **bankruptcy or insolvency proceedings opened in a Member State of the European Union**, it is necessary to refer to Council Regulation (EC) No 1346/2000 of 29 May 2000 on insolvency proceedings (hereafter “the Regulation”), which establishes a common framework for these proceedings within the European Union (with the exception of Denmark).

We note that the French safeguard, rehabilitation (with appointment of an administrator) and judicial liquidation proceedings constitute insolvency proceedings falling within the field of application of the Regulation.

By virtue of the Regulation, the applicable law for the purposes of insolvency proceedings is that of the court seised.

Thus, Article 4(1) of the Regulation provides that “*save as otherwise provided in this Regulation, the law applicable to insolvency proceedings and their effects shall be that of the Member State within the territory of which such proceedings are opened*”.

For their part, Articles 3(1) and 3(2) define the international jurisdiction and provide that “*the courts of the Member State within the territory of which the **centre of a debtor’s main interests** is situated shall have jurisdiction to open insolvency proceedings. In the case of a company or legal person, **the place of the registered office shall be presumed to be the centre of its main interests in the absence of proof to the contrary**” and that “*where the centre of a debtor’s main interests is situated within the territory of a Member State, the courts of another Member State shall have jurisdiction to open insolvency proceedings against that debtor only if he possesses an establishment within the territory of that other Member State. The effects of those proceedings shall be restricted to the assets of the debtor situated in the territory of the latter Member.*”*

Article 2(h) defines “establishment” as “*any place of operations where the debtor carries out a non-transitory economic activity with human means and goods*”.

The criteria for a connection to a given territory that are provided by the Regulation thus appear to be more restrictive than those adopted in French case-law (such as assets not assigned to an economic activity, the localisation of a temporary activity or the nationality of the debtor).

The law of the country of the European Union in which the insolvency proceedings were opened governs all of the terms of the insolvency proceedings: the conditions under which it is opened, is conducted and is closed. It also determines the substantive rules such as the definition of the debtors and the assets concerned, the respective powers of the debtor and the trustee in bankruptcy, **the effects of the proceedings on contracts (Article 2(e))**, on proceedings brought by individual creditors, and the rules applicable to acts being null and void (including therefore acts that are null and void on account of the hardening period), etc.

However, the Regulation provides for a number of exceptions which attenuate the effectiveness of the law of the State in which proceedings were opened, having regard to particular situations encountered by private international law; for example, the law of the State in which an asset that is the subject of a claim is located shall be applicable, or else the law of the State in which an immovable property is situated shall be applicable for agreements relating to the latter.

The law of the State in which proceedings were opened will no longer be applicable if a party which has taken advantage of an act detrimental to all of the creditors (including acts rendered null and void on account of the hardening period) provides proof that (i) this act is subject to the law of a Member State other than the State of the opening of proceedings and that (ii) that law does not allow any means of challenging that act in the relevant case (Article 13 of the Regulation).

The consequence of this is that the choice of an applicable law in an IP license, even though it is excluded in principle in favour of the law of the place of the opening of proceedings, may nevertheless take effect with regard to the question of acts rendered null and void on account of the hardening period, if the law chosen by the parties would not in that particular case lead to the acts being rendered null and void.

**3.** Though the parties' choice of applicable law in their IP license cannot be enforced against the public policy provisions of French and Community law relating to bankruptcy or insolvency proceedings, that law must nevertheless be applied to the performance of the said agreement in so far as the latter is continued in accordance with the rules relating to the continuation of contracts that are current as at the date of the opening of the bankruptcy or insolvency proceedings, though subject to any contrary public policy provisions arising from the law on bankruptcy or insolvency proceedings.

- 6) Would a clause providing the solvent party in an IP license agreement the right to terminate or alter an IP license be considered enforceable during a bankruptcy or insolvency proceeding in your country? Would the answer be different if the clause provides for automatic termination as opposed to an optional right to terminate?

For the question of the possibility of terminating an agreement containing a termination clause to arise in the event of bankruptcy or insolvency proceedings against the co-contracting party – the debtor – it is necessary for the agreement to be still “current” on the date on which the judgment opening the proceedings is issued (**see questions 3 & 4 a**)).

In this regard, the mere fact that a default in performance of a non-financial nature is established before the judgment opening the proceedings, if the termination clause has not been invoked, cannot allow the agreement to be considered as being no longer current (Cass. com, 9 March 2010, no. 09-10571).



If the termination clause has been implemented before the said judgment, the agreement will no longer be “current” and will not be subject to the applicable specific provisions.

The Commercial Code expressly provides that “*notwithstanding any statutory provision or any contractual clause, no indivisibility, termination or ending of a current contract can result from the mere fact of safeguard proceedings being opened*” (Article L. 622-13-I).

This article is also applicable in the event of rehabilitation proceedings (by way of cross-reference, see Article L. 631-14 para.1) and of judicial liquidation (Article L. 641-11-1).

A clause providing that one of the parties to an agreement may terminate the latter in the event of bankruptcy or insolvency proceedings being opened against another party is thus null and void and deemed not to have ever existed (see CA of Colmar, 13 June 1990, CA of Paris, 4<sup>th</sup> ch. 24 May 1994, judgments issued under the regime of the law of 25 January 1985; CA of Paris, 5<sup>th</sup> ch. Section A, 30 June 2004); such provision is null and void on a public policy basis.

In this respect, it does not matter whether the contractually stipulated termination provision is automatic or optional at the discretion of the co-contracting party of the debtor.

A clause which provides for termination due to non-performance of a financial nature prior to the judgment opening the proceedings likewise has no effect because

- The payment of any previous debt is prohibited, and this then prohibits sanction of the behaviour of the co-contracting party who is the debtor (Article L. 622-7 of the Commercial Code);
- The administrator or the liquidator may require the continuation of the agreement despite the previous instances of financial non-performance, and the co-contracting party– the creditor in respect of these latter – is only able to declare them as liabilities (Articles L. 622-13-II and L. 641-11-1-II of the Commercial Code).

However, the termination clause retains its effect with regard to the sanction of any instance of non-performance other than financial non-performance (Cass. com. 12 May 1992; Cass. com. 28 May 1996).

Thus, if an action for termination was initiated before the judgment opening the proceedings, it may be continued if it is not based on the non-payment of a previous debt. This will be the case if it is based on the non-performance of an obligation to perform a positive act. The administrator may not oppose the request for termination by relying on the rule of the continuation of current agreements (Cass. com. 28 May 1996).

This exception in the law on bankruptcy or insolvency proceedings to generally applicable contract law is justified by obvious practical considerations. Specifically, if there were no such exception, the termination clause would become a standard clause and the immediate termination, and thus the extinction, of many agreements would compromise the rehabilitation of the debtor, which is the primary objective of the law on bankruptcy or insolvency proceedings.

In addition, the French Supreme Court recently ruled that, in application of the abovementioned Articles L. 622-13, L. 631-14, para. 1 and L. 641-11-1 of the Commercial Code, any clause which amends the conditions for the continuation of a current contract by reducing the rights or increasing the obligations of the debtor due to the mere opening of a bankruptcy or insolvency proceeding is prohibited (Cass. com. 14 January 2014, no. 12-22909, in relation to a clause in a fire insurance agreement providing that the insurer did not cover the loss of value of the business as a result of losses suffered (notably) after the opening of rehabilitation or judicial liquidation proceedings).

Thus, the debtor's co-contracting party cannot rely on the opening of a bankruptcy or insolvency proceeding in order to avoid its obligations such as they were prior to the opening of the said proceedings.

- 7) Would a clause in an IP license agreement that restricts or prohibits transfer or assignment of the IP license be considered enforceable during a bankruptcy or insolvency proceeding in your country?

1. Such a clause would be unenforceable in bankruptcy or insolvency proceedings in the context of a sale plan of the company to a third-party acquirer, regardless of whether such a sale plan arises in the context of a safeguard, rehabilitation or judicial liquidation proceedings.

It should be recalled that the provisions relating to the court-ordered assignment of agreements are intended to apply to all categories of bankruptcy or insolvency proceedings. Thus, Article L. 626-1 of the Commercial Code authorises the application of these rules in the case of a safeguard plan comprising an assignment, just as Article L. 631-22 of the same Code renders Article L.642-7 applicable in the case of the total or partial sale of the company in the context of rehabilitation proceedings. Finally, and most importantly, the law on safeguard has enabled agreements to be assigned in the context of judicial liquidation proceedings, which was not possible under the previous legal regime. Thus, the court-ordered assignment of agreements is now governed by Article L. 642-7, to the provisions of which Articles L. 626-1 and L. 631-22 cross-refer.

The sale plan is intended to bring about not only the transfer of the company's assets, but also its survival, and this requires the maintenance of the legal relationships that are vital for the economic entity that is sold.

In the context of such sale plans, French law thus confers exorbitant powers on the court. Specifically, the judge may decide to transfer to the acquirer of the company the agreements entered into by the debtor despite the personal nature of the contractual relationship.

However, this compulsory transfer of agreements, which compromises the freedom of contract of the parties, is strictly circumscribed and is subject to precise rules.

The agreement of the debtor's co-contracting parties to the assignment of the agreement is not necessary; the court merely has to seek their comments pursuant to Article L. 642-7 para. 1 of the Commercial Code.

It must be emphasised that this mandatory transfer is obviously only applicable to contracts that are in the course of being performed or which are continuing to produce their effects as at the date on which the judgment approving the sale plan is issued.

In addition, only the “*agreements necessary for the continuation of business*” can be the subject of a court-ordered assignment. Furthermore, the abovementioned Article L. 642-7 only relates to certain types of agreements, namely current leasing, rental or supply agreements. This wording is very wide since, from an economic point of view, every agreement relates to the supply of goods or services.

Accordingly, it has been held that a patent license was capable of being assigned because it constituted an agreement for the supply of labour, which could be analysed as a supply of services (in particular the technical assistance provided to the licensee, CA of Colmar 13 June 1990).

2. In particular, the question has arisen of whether a clause prohibiting or restricting the assignment of an agreement on account of it being *intuitu personae* could provide an obstacle to the ability of the agreement to be transferred.

As mentioned above in question 4 a), Article L. 642-7 of the Commercial Code does not make any distinction depending on whether or not the agreement was entered into *intuitu personae*.

Thus, such a clause will in principle be unenforceable in bankruptcy or insolvency proceedings and, despite everything, the agreement can be assigned.

Nevertheless, this principle can be subject to qualification.

Forced assignment may be avoided in the particular case where ***intuitu personae* is inherent to the services or to the personal and non-transferrable experience and knowhow of the assigning debtor.**

It was on this basis that it was held that a patent license was able to be the subject of a compulsory assignment when it was the licensee debtor, the beneficiary of the patentee’s technical assistance, which was the subject of the sale plan, while the patentee merely collected royalties (CA of Colmar, 13 June 1990, **in that case the license expressly provided that “the agreement is strictly personal in nature; the licensee cannot assign it on any basis whatsoever without the agreement of the patentee”**); the debtor’s obligation to pay the royalties cannot be classed as being *intuitu personae* in any way.

On the other hand, in the event of the licensor being subject to rehabilitation proceedings, if he has communicated knowhow (in particular a mixed patent/knowhow license) or will be subject to continuing obligations to provide specific maintenance or technical assistance (patent license, software license), the assignment of the agreement may prove to be more problematic because in such case *intuitu personae* will appear to be inherent in the services provided by the debtor who is the licensor. In this case, the position of the licensee could be equated with that of a franchisee (**see question 4 a**)).

In such a case, imposing a new service provider on the contracting party that is affected by the assignment would then be tantamount to a substantial amendment of the conditions for the performance of the agreement that were in force on the date of the opening of the bankruptcy or insolvency proceeding, in breach of Article L. 642-7 para. 3. of the Commercial Code.

Thus, a clause prohibiting or restricting the assignment of the agreement on account of it being *intuitu personae* could in this case be upheld by the courts. However, we have not found any case-law to this effect.

3. Furthermore, a contractual clause by which a contractual right of pre-emption is granted to the licensee, pursuant to which the latter will be able to acquire the intellectual property right granted in the event of an assignment of any kind whatsoever, will not always be enforceable in bankruptcy or insolvency proceedings.

Thus, in the event of a sale by private agreement of a business that is authorised by the bankruptcy judge in the context of the lessee being subject to liquidation, the French Supreme Court has stated that the contractual right of pre-emption stipulated to be for the benefit of the lessor in a commercial lease agreement in the event of a sale of the business had to be complied with in all of its provisions (Cass. com., 7 September 2010, no. 09-66.284). The French Supreme Court had already given a ruling to this effect with regard to a contractual right of preference stipulated to be for the benefit of the lessor in a commercial lease agreement in the event of the assignment of that lease (Cass. com., 13 February 2007, no. 06-11.289).

On the other hand, in the event of the assignment of an agreement (or of an IP right) in the context of a sale plan, the contractual clauses laid down in the assigned agreement which restrict the ability to assign, in particular pre-emption clauses (CA of Caen, 1<sup>st</sup> ch., 9 November 2010, which removes a preference clause provided in a lease agreement) or preference agreements, can be rendered ineffective.

This will happen if such a clause casts into doubt the conditions for the transfer of the operation that are laid down by the sale plan.

- 8) In the event of a transfer or assignment of an IP license resulting from a bankruptcy or insolvency proceeding, what are the rights and obligations between the transferee and the remaining, original party or parties to the IP license? Does it matter if the insolvent party is a licensor, a licensee, or a sub-licensee?

In principle, all of the provisions of agreements assigned by way of a judgment approving a sale plan must be performed, under the conditions in force on the date of the opening of the proceedings, notwithstanding any clause to the contrary.

Article L. 642-7, paragraph 3 of the Commercial Code specifies that leasing or rental agreements or agreements for the supply of goods or services that are necessary for the maintenance of the business “*must be performed in accordance with the conditions in force on the date of the opening of the proceedings, notwithstanding any clause to the contrary.*”

There are no specific rules which make exceptions to this principle for industrial property rights.

Thus, in the event of the assignment of an agreement relating to a patent, a trade mark, a design or a plant variety right, all of the rights and obligations arising from the assigned agreements are maintained.

Nevertheless, when a sale plan is adopted, the contractual clauses laid down in the assigned agreement, which restrict the ability to assign, in particular pre-emption clauses (CA of Caen, 1<sup>st</sup> ch., 9 November 2010, mentioned above) or preference agreements, can be rendered ineffective.

However, if the sale of the business is decided upon by way of a private agreement, outside of a sale plan, the pre-emption clauses regain their validity (**see question 7**).

Furthermore, the Intellectual Property Code provides specific rules aimed at protecting authors in the event that the bankruptcy or insolvency proceeding relate to a publisher or a producer of an audiovisual work (**see question 4 a**)).

Finally, it should be noted that whether a party is a licensor, licensee or sub-licensee has no impact on its rights and obligations to a license or sub-license agreement once the continuation of said agreement has been authorised by the sale plan.

- 9) In the event an IP license is terminated during a bankruptcy or insolvency proceeding in your country, would the licensee be able to continue using the underlying IP rights (and if so, are there any limitations on such use)? Does the (former) licensee have a claim to obtaining a new license?

There is no provision to this effect in French law. A licensee whose license is terminated during a bankruptcy or insolvency proceeding can only obtain damages. Incidentally, recovery of these damages is uncertain because it can be assumed that the solvency of the licensor is at best questionable and these damages do not benefit from the preferential treatment accorded to debts arising from the performance of an agreement that is being continued (Article L. 622-17 III 2° of the Commercial Code). The debt arising from the termination must be declared.

Nor does French law on bankruptcy or insolvency proceedings provide any mechanisms which allow the former licensee to request a new license. Nevertheless, if the terminated license was a FRAND license and related to a patent that was the subject of a declaration of its essential nature (by the debtor or an acquirer), as indicated in question 4 b), the licensee should be able to request a new license under FRAND conditions.

- 10) If IP rights that are jointly owned by two parties have been licensed to a licensee by one or both of the joint owners, and one of the joint owners becomes insolvent, how would the IP license be treated in a bankruptcy or insolvency proceeding in your country? Could the IP license be terminated even if this would result in termination of an agreement between the solvent joint rights owner and the solvent licensee?

The Intellectual Property Code does not provide any rules governing joint ownership of IP rights, except with regard to patents.

Accordingly, while Article L. 712-1 of said Code provides that “*the trade mark may be jointly owned*”, no legal regime is described.

The principle is thus the application to intellectual property rights of the legal regime of undivided ownership of Articles 815 et seq. of the Civil Code.

An undivided share cannot be seized by the personal creditors of an undivided co-owner (Article 815-17 paragraph 2 of the Civil Code); neither an undivided asset nor even an undivided share can therefore be included in the bankruptcy or insolvency proceeding.

However, that would seem not to have any genuine effect on the licensee.

This is because, according to the legal regime, and in accordance with Article 815-3 of the Civil Code, any act of administration may be performed by one or more undivided co-owners who own at least two thirds of the undivided rights or by any undivided co-owner who has been given general authority for administration.

In that case, the other undivided co-owners must be informed of the administrative acts decided upon and capable of being enforced against them. However, the agreement of all of the undivided co-owners is necessary for an act of disposal.

The granting of a non-exclusive license is generally classified as an act of administration whereas the grant of an exclusive license is classified as an act of disposal.

The result of this is that a license granted over an IP right that is the subject of undivided ownership will most often be enforceable against all of the undivided co-owners.

Thus, the opening of a bankruptcy or insolvency proceeding against only one of the undivided co-owners should not have any effect on such a license.

As far as patents are concerned, a supplementary legal regime is provided; the provisions of the Civil Code that relate to undivided ownership are excluded (Article L. 613-30 of the Intellectual Property Code).

In the absence of any case-law on this point, we cannot rule out the possibility that the courts will, all the same, be guided by the regime relating to undivided ownership and exclude from the bankruptcy or insolvency proceeding a patent that is jointly owned.

However, it appears to us to be more probable, given that there is no legislative text which expressly excludes it, that a patent, even when it is jointly owned, can be included in the bankruptcy or insolvency proceeding opened against one of the joint owners.

The share of the patent held by the joint owner that is placed under bankruptcy or insolvency proceedings could then be assigned.

The question therefore arises of the exercising of a possible right of pre-emption.

The answer differs depending on whether the situation is a sale by private agreement or a sale plan (**see question 7**).

Indeed, in the event of a sale by private agreement of parts of a business that is authorised by the bankruptcy judge in the context of the judicial liquidation of the lessee, the case-law specifies that the contractual right of pre-emption or of preference that is stipulated to be for the benefit of the lessor in a commercial lease agreement must be complied with in all of its provisions in the event of the sale of the business.

In the event of the adoption of a sale plan, it is nevertheless probable that the right of pre-emption from Article L. 613-29 e) of the Intellectual Property Code cannot be relied upon to prevent the sale of the transferred patent right to a third party buyer.

This is because, even though this right of pre-emption has a statutory origin, that regime is only a supplementary one, and the joint owners may derogate from it by way of a joint ownership regime which excludes the exercise of such a right (Article L. 613-32 of the Intellectual Property Code).



In addition:

- the law on bankruptcy or insolvency proceedings is of a public-policy nature;
- a sale plan puts in place a court-ordered assignment;
- the rights of pre-emption that are of a statutory origin are most often excluded in relation to bankruptcy or insolvency proceedings, and by analogy:
  - Article L. 642-5 of the Commercial Code provides that “*The rights of pre-emption instituted by the Rural and Sea-Fishing Code or the Town Planning Code cannot be exercised in relation to an asset included in this plan*”;
  - and, in the context of a **sale plan** subsequent to the opening of bankruptcy or insolvency proceedings, the French Supreme Court acknowledged the **ineffectiveness of the statutory right of pre-emption** enjoyed by SAFER [French rural development agencies] (Cass. civ. 3<sup>rd</sup>, 19 May 2010, no. 09-14167).

The share of a patent held by a joint owner that has been placed under bankruptcy or insolvency proceedings could thus be the subject of an assignment to a third party in the context of a sale plan.

And a license granted in respect of that patent by that joint owner can therefore also be assigned to the acquirer of that share.

In the absence of any provision to the contrary between the joint owners, and in accordance with the provisions of Article L.613-29 of the Intellectual Property Code, each of the joint owners may grant to a third party a non-exclusive license for its benefit, except that they must equitably compensate the other joint owners if these latter are not personally operating the invention or have not granted any licenses.

The other joint owners are notified of this license; if they do not oppose it by purchasing the joint owner's share, they therefore cannot challenge it (Article L. 613-29 paragraphs 2 et seq. of the Intellectual Property Code).

If a joint owner is the subject of a bankruptcy or insolvency proceeding, in the absence of any indications in the case-law, it would therefore seem to us that any license entered into with another solvent joint owner will continue its course without the bankruptcy or insolvency proceedings having any effect.

If the license is entered into with the joint owner who is the subject of a bankruptcy or insolvency proceeding, the same should happen to it as for any license in this case (assignment or termination), without the solvent joint owner being able to intervene since it is a third party to the agreement.

If the license is granted by all of the joint owners and one of them is the subject of a bankruptcy or insolvency proceeding, it would seem to us that the assignment can only relate to the share of the insolvent joint owner.

The acquirer would have to substitute itself for the insolvent joint owner, with the requirement to comply with the obligations of the license

For the same reasons, if the license granted by all of the joint owners is exclusive, it would seem to us that the agreement given by them, in accordance with Article L. 613-29 d) of the Intellectual Property Code, will not be able to be challenged.

- 11) Are there non-statutory based steps that licensors and licensees should consider in your country to protect themselves in insolvency scenarios, e.g., the creation of a dedicated IP holding company, creation of a pledge or security interest in the licensed IP for the benefit of the licensee, registration of the license, and/or inclusion of certain transfer or license clauses?

As a preliminary remark, the contractual mechanisms which can be set up by the licensors and licensees are likely to be affected by the principle of invalidity of agreements entered into during the hardening period.

Article L. 632-1 of the Commercial Code provides that: *“The following acts, when they have occurred after the date of cessation of payments, are null and void: (...) 2° Any commutative agreement in which the obligations of the debtor exceed by far those of the other party”*. Pursuant to this article an agreement entered into by the debtor and where there is an imbalance between the latter’s obligations and those of the co-contracting party shall be deemed null and void, with it being specified that the imbalance is assessed as at the date of the act (Cass. com. 1 December 1975 no. 74-11266, Cass. com. 16 February 1981 no. 79-11837).

Furthermore, Article L. 632-2 of the Commercial Code states that: *“Payments in respect of current debts that are made subsequently to date of cessation of payments and acts concluded for pecuniary interest performed subsequently to same date may be invalidated if those who were dealing with the debtor were aware of the cessation of payments.”*

For example, in a decision of 24 November 1998, the French Supreme Court held that trade mark assignments and licenses entered into by the debtor during the hardening period shall be invalidated on the grounds that *“trade mark assignments and licenses entered into on the same date formed a single contractual whole, the effect of which was to remove from among the assets of the company GMF the trade mark Marie-France, its principal asset, while granting to it in return, apart from a simple advance of funds, only an insecure right of use of that trade mark, given that the term of the license was likely to be reduced, without reason, to three months (...) and that the royalty paid by the licensee was determined solely by the licensor company”* (Cass. Com., 24 November 1998, no. 94-19890).

In a decision of 25 January 2012, the Court of Appeal of Nancy upheld a judgment that had declared null and void several agreements entered into during the hardening period which related to the assignment of two patents by a French subsidiary to its English parent company and the granting by the latter to its subsidiary of two licenses relating to these same patents (CA of Nancy, 25 January 2012).

This having been said, several types of mechanisms can be considered by the parties in order to protect themselves in the event of bankruptcy or insolvency proceedings affecting one of them.

It should be noted that registering licenses with the INPI has for sole purpose to render them enforceable towards third parties and does not favour (i) the registered licensee or (ii) the licensor who owns the right in relation to which the license is registered, in the event of bankruptcy or insolvency proceedings being opened against one of them (**cf. questions 1 and 4 d**)).

**1. The incorporation of a company whose sole purpose is to hold the intellectual property rights of a group of companies** allows these rights to be protected against any bankruptcy or insolvency proceedings since it would seem improbable that a company whose sole activity is to hold intellectual property rights and to grant licenses would be under bankruptcy or insolvency proceedings.

This is because under the French bankruptcy or insolvency proceedings law, each company belonging to one and the same group retains its autonomy. Each company enjoys legal personality and is treated independently to the others. Thus, if one of the companies in the group is placed under bankruptcy or insolvency proceedings, the other companies in the group are in principle not affected by those proceedings.

However, this principle of autonomy can be challenged, and the bankruptcy or insolvency proceedings extended to third companies, in two cases:

- In the context of an action for confusion of assets: two conditions must be met for confusion of assets to be established: (i) confusion of the accounts meaning that it is impossible to separate the respective sets of assets and (ii) the existence of abnormal financial relationships.

The French Supreme Court evaluates these two conditions quite strictly and considers that simple relationships of proximity between two companies (e.g. same managing director, cash and foreign exchange management agreement, exchanges of personnel and advances of funds, etc.) are not sufficient to establish confusion. Accordingly, the French Supreme Court held that the mere identification of a default in payment of the rent which allowed the lessee to pay for renovation works on the leased premises that were necessary for its operation did not on its own allow it to be established that there was confusion of assets (Cass. com., 19 February 2013, no. 12-11.546, 12-20.935).

- By demonstrating the fictitiousness of the company: in this case, it is necessary to evidence that the company is only a front company that is devoid of any activity or volition of its own, and that the corporate structure is completely repudiated and there is absolutely no *affectio societatis*. In practice, this is a mechanism which is playing an increasing role against holding companies which hold the intellectual property rights of a group of companies. Thus, bankruptcy or insolvency proceedings opened against one or more companies in the group are increasingly being extended to this type of holding company.

In this regard, the Court of Appeal of Paris upheld the extension to a company of rehabilitation proceedings which were opened against fourteen other companies which obviously belonged to the same group, on grounds of confusion of assets and fictitiousness of that company (in particular on the grounds that that company had never employed any employees and that it was thus absolutely incapable of itself carrying out the services it was supposed to provide pursuant to a knowhow and technical assistance agreement) (CA of Paris, 17 December 1986).

It should moreover be noted that in the case of industrial property rights subject to registration (patents, trade marks, designs and plant variety rights), the company that is intended to be the proprietor of the group's IP rights may be the proprietor of the rights from the very beginning. On the other hand, in the case of copyright in particular, the holding company can become the proprietor only subsequent to an assignment (apart from the case of a collective work); this structural option will then require assignments of rights within the groups to be organised in order that the rights are indeed transferred to the company which owns them, and this is part of the more general question of creations by employees.

**2.** It is also possible to adopt a strategy according to which a **natural person**, generally the managing director, is the **proprietor of the intellectual property rights** and grants licenses to the company.

For example, trade marks or designs are filed and registered in the name of the creator/managing director of the company, who then grants licenses to the company. Certain companies in the fashion sector operate in accordance with this model (e.g. Louboutin and Vanessa Bruno).

This system allows the intellectual property rights to be protected against any bankruptcy or insolvency proceedings which might affect the company since, here too, the proprietor of the rights has a legal personality that is distinct from that of the operating company.

However, the fact that the rights are attached to the natural person can sometimes prove to be problematic if this person leaves the company or in the event of the valuation of the company's assets in the context of an investment or acquisition transaction by a third party (as the intellectual property rights cannot be included in the accounts even if they represent an essential asset. It is nevertheless true that in such a case the IP rights will often be assigned to the company, which will in addition have tax implications).

Furthermore, if the managing director, as a natural person, is guarantor for the company, this solution opens the way for the creditors to seize the IP rights. In order to avoid this risk, it is advised to allocate a particular asset as the security.

**3.** It is also possible to **include clauses which expressly state and strengthen the *intuitu personae* nature of the IP licenses** for the purposes of influencing the manner in which such agreements are treated (for example: stipulating that the licensor's knowhow is essential for the proper performance of the agreement or else that the assignment of the agreement to a third party would not allow the essential obligations of the agreement to be maintained).

However, the applicability of this type of clause remains uncertain given what was said above (**see questions 4 a) and 7).**

**4.** Recourse to the mechanism of the **right of pre-emption** may also be considered in order to protect intellectual property rights against bankruptcy or insolvency proceedings.

However, its implementation will cause difficulties in practice, as it conflicts with certain provisions of the Commercial Code or else with the case-law in the area of legal pre-emption (**see questions 7 & 8).**

5. It is also possible to have recourse to the law of securities and in particular to the mechanism of the **trust by way of security (*fiducie-sûreté*)**.

This mechanism, which was introduced into French law by the law of 19 February 2007 and regulated in Articles 2011 et seq. of the Civil Code, is a transaction whereby one or more settlors transfer assets, rights or securities, or a set of assets, rights or securities, whether present or future in nature, to one or more trustees who, while keeping them separate from their own assets, act with a specific purpose for the benefit of one or more beneficiaries.

Recourse to the trust by way of security involves the settlor, i.e. the proprietor of the intellectual property rights, transferring the rights in question to a trustee who thereby becomes their proprietor, with the transferred rights constituting a group of assets distinct from the trustee's own assets, for the benefit of the beneficiary, the licensee.

The trustee may also be the beneficiary, but as the role of trustee is reserved for certain persons, in most cases the transactions will involve three persons.

This mechanism allows intellectual property rights to be protected against bankruptcy or insolvency proceedings that may be opened against the settlor or the beneficiary, because the intellectual property rights that are the subject of the trust cease to be part of the assets of the settlor and therefore cannot form part of the assets to which the creditors are entitled in the event of bankruptcy or insolvency proceedings. Furthermore, the transferred intellectual property rights must be kept separate from the trustee's own assets, and these assets that are held in trust can only be seized by the holders of debts which arise from the preservation or the management of those assets, with the opening of bankruptcy or insolvency proceedings against the trustee not having any effect on the assets held in trust, as is provided in Articles 2024 and 2025 of the Civil Code.

6. A pledge of an intellectual property right is also possible (**see question 4 e**). It is of (i) limited interest in the context of safeguard and rehabilitation proceedings – even though it allows the creditor to benefit from priority over unsecured creditors and also higher ranking in the event of a sale of the asset that is encumbered by the security interest; and (ii) greater interest in the context of judicial liquidation proceedings – firstly because the right of retention and the right of allocation can be used during these proceedings (it should be mentioned, however, that the right of retention by virtue of a pledge over an IP right appears to be uncertain, in particular having regard to a recent judgment of the Court of Cassation, Cass. com. 26 November 2013, no. 12-27.390), and secondly because of the ranking from which the creditors who are beneficiaries of the pledge benefit.

7. **With regard to software**, it is possible to include a **clause in the license** by means of which the licensee may obtain a **copy of the source codes in the event of the bankruptcy of the licensor owing to judicial liquidation proceedings, so that it can carry on with its business (cf. question 4 j)**.

## II. Policy considerations and proposals for improvements to your current system

- 12) If your country has a registration system for IP licenses, is it considered useful? Is it considered burdensome? Are there aspects of the system that could be improved?

As previously stated (**questions 1 and 4 d**)), the French system of registration of industrial property licenses in the registers is only intended to render the licenses enforceable against third parties; registration has no effect on the rights of the parties to the license, in particular in the context of bankruptcy or insolvency proceedings.

In addition, in 2008 (adoption of the law on modernisation of the economy of 4 August 2008), the legislator permitted unregistered licensees to intervene in infringement actions brought by the proprietor of the right, which was previously not admissible –an unregistered licensee would have been found to have no standing to intervene to the proceedings. This legislative amendment thus moves in the direction of reducing the effect of registrations.

The Working Group thus does not believe that it is worthwhile to modify the current system of registration of licenses.

In particular, the Working Group does not consider that moving in the direction of creating rights for parties by way of registration, particularly in the context of bankruptcy or insolvency proceedings would be appropriate.

- 13) If the law that governs bankruptcy and insolvency proceedings in your country does not address IP rights or IP licenses as distinct from other types of contracts, assets, and property rights, should it do so? If yes, should the law be statutory?

As has been set out above, the applicable law on bankruptcy or insolvency proceedings does not specify a specific regime for either IP rights or license agreement over these rights, except with regard to publishing and audiovisual-production agreements in the area of copyright.

These rights and licenses are thus virtually always subject to the same treatment as the other assets and agreements of the company that is under bankruptcy or insolvency proceedings.

The Working Group considers that the legislation should be amended so as to operate certain distinctions and that it should consider IP rights and licenses over such rights separately, in accordance with that which is suggested in questions 17 and 18.

- 14) With regard to a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license under the current law of your country, are there aspects of this law that could or should be improved to limit this ability? Should equitable or public policy considerations be taken into account?

It appears to the Working Group that certain aspects of the legislation should be improved so as to limit the power of the administrator in certain cases in order to take account of considerations pertaining to the nature of the parties (therefore taking into account *intuitu personae*), the interests of other parties to the agreements, and possibly of provisions of competition law (merger control, essential patents) or of public policy (*ex officio* licenses in relation to public health issues, for example).



- 15) Are there other changes to the law in your country that you believe would be advisable to protect IP licenses in bankruptcy? If yes, please explain.

Yes, in line with the limitation of the administrator's powers, the Working Group considers that the rights of pre-emption, of preferential allocation or of court-ordered IP licenses in favour of the licensee should be strengthened, as is set out below in question 17.

### III. Proposals for substantive harmonisation

The Groups are invited to put forward proposals for the adoption of harmonised laws in relation to treatment of IP licenses in bankruptcy and insolvency proceedings. More specifically, the Groups are invited to answer the following questions *without* regard to their existing national laws.

- 16) Is harmonization of laws relating to treatment of IP licensing in bankruptcy and insolvency proceedings desirable?

Yes, the rules relating to the treatment of IP licenses in the context of bankruptcy or insolvency proceedings should be harmonised.

It should be noted that, on an European level, efforts at harmonisation have already been made, namely with regard to the rules applicable to insolvency proceedings by way of the adoption of [Council Regulation \(EC\) No 1346/2000/EC of 29 May 2000 on insolvency proceedings](#).

Such harmonisation would be beneficial to companies active on several markets and to the exercising of rights which, though they may still be territorial when they are established, should not produce different effects depending on whether bankruptcy or insolvency proceedings are dealt with according to one governing law or another one which is potentially different from the one under which the rights were obtained (in the case of the IP rights themselves), or were acquired by way of licenses (which are most often cross-border) relating to families of IP rights that are subject to a governing law designated in the license.

- 17) Please provide a standard that you consider to be best in each of the following areas:
- a) What restrictions, if any, should be placed on a bankruptcy administrator's ability to adopt, assign, modify, or terminate an IP license in the event of bankruptcy of a party to that license? Should these restrictions be statutory?

The Working Group considers that certain limitations and constraints should be applied to the power of the administrator to decide on the fate of IP licenses.

The Working Group states that the purpose of its proposals is to take better account of the specific nature of IP licenses and the consequences – which are often serious and even irreversible – that the exorbitant and arbitrary powers of the administrator or of the liquidator can have on the situation of the parties to a license under French bankruptcy or insolvency proceedings law.

However, the Working Group is aware that respect for the objectives of bankruptcy or insolvency proceedings nevertheless means that the administrator or liquidator needs to be given adequate tools and discretion to be able to keep the business going or to sell it, and thus to preserve jobs.

Accordingly, the Working Group does not wish the rights that it proposes granting to the parties to an IP license to be able systematically to frustrate the compelling requirements of the bankruptcy or insolvency proceedings.

This is why the Working Group advocates in particular exceptions and attenuations in the event of a global sale of a business branch, or proposes giving the judge the discretion as to whether to grant a court-ordered license to the licensee whose license has been terminated by the administrator or liquidator, and discretion with regard to the conditions under which such a license is granted.

1. The administrator should be able to enter into new IP licenses if such agreements appear necessary in order for the licensor-debtor to carry on its business, unless a current sole or exclusive license which has been maintained exists in relation to the IP right concerned.

2. The administrator should not have the right to amend the IP licenses without the agreement of the co-contracting party.

3. The Working Group believes that it should be compulsory for the administrator to consult the debtor's co-contracting party before he makes any decision relating to the assignment or termination of a current IP license.

The administrator should provide reasons for his decision to assign or terminate an IP license, and the decision should be reviewed by a judge (bankruptcy judge or court).

However, the latter would not be bound by the decision of the administrator and it would have the final decision.

4. In the event of an assignment of the IP license (and of the IP right over which the license is granted):

- In the event that the licensor is the debtor, the Working Group considers that a right of pre-emption in favour of the co-contracting party – the licensee – should be instituted.

The licensee would benefit from this right of pre-emption unconditionally in the event of the sole assignment of the agreement (and of the IP right) In the event of several licensees, the licensee who makes the most advantageous offer, as assessed by the judge, will prevail.

However, such a right of pre-emption for the licensee would only apply if the conditions of acquisition were at least equivalent to those offered by a third party making an offer.

In the case of the global sale of a business branch, the licensee's right of pre-emption would in addition only apply if the latter was able, and had the wherewithal, to resume operation of the entire branch of the concerned business– this would be a matter for the judge to assess.

In all cases, the licensee obviously should not assert his right of pre-emption in an abusive manner (i.e. a licensee who has not paid royalties and thus caused the difficulties of the licensor-debtor) – again this assessment would be solely within the power of the judge.

- In the event that the licensee is the debtor, the Working Group believes that the administrator should be able to assign the IP license to a third party. However, the licensor should be able to challenge such assignment (whether it be sole or global i) by demonstrating the existence of a fair ground (for example, where the license is acquired by a direct competitor). Here too, the actual existence of a fair ground would be a matter to be assessed solely by the judge.

5. In the event of termination of the IP license by the administrator, the Working Group proposes that the licensee, co-contracting party of the debtor-licensor, should be able to request a court-ordered license from the judge.

Nevertheless, the granting of such a court-ordered license should be limited to specific cases, in particular given that such a license would necessarily lead to a decrease in the value of the IP right granted in the event of a sale of assets.

Thus, in order to claim a court-ordered license which would be subject to the payment of royalties, the licensee would have to prove that its economic position would be irreparably compromised if such a license were not granted.

The question of whether its economic position would be irreparably compromised would also be a matter to be decided at the sole discretion of the judge.

The Working Group considers that the set of provisions advocated above should be incorporated into the law on bankruptcy or insolvency proceedings (Commercial Code) and be provisions of a public policy nature, so that neither the parties nor other provisions can depart from them.

- b) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon pre-bankruptcy registration of the IP license?

The Working Group considers that the registration of licenses should not have any impact on the recommendations referred to in point 17 a).

- c) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the bankrupt party is the licensor or a licensee?

We refer directly to the answers to question 17 a) which make a distinction, where necessary, between the cases where the debtor is the licensee and where it is the licensor.

- d) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the licensee has a security interest in the underlying IP rights?

The Working Group considers that the restrictions of the powers of the administrator should not be dependent on the existence of a security interest in favour of the licensee.

- e) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the license is a sub-license or a “main” license?

The Working Group suggests that, in the event of termination of the main license on account of the insolvency of the licensee, the sub-licensee should also be able to ask the judge for a court-ordered license, as suggested in question 17 a) point 5.

- f) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon whether the license is sole, exclusive or nonexclusive?

The Working Group believes that the restrictions of the powers of the administrator should not depend on whether the license is sole, exclusive or non-exclusive, apart from the restriction, referred to in answer 17 a) point 1., of not entering into new licenses in the context of bankruptcy or insolvency proceedings opened against the proprietor of the right if the latter had previously granted a sole or exclusive license.

- g) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon the type or types of IP rights that are licensed in the IP license?

The Working Group considers that the restrictions of the powers of the administrator referred to in question 17 a) should not generally be dependent on the type of IP right covered by the license.

However, the Working Group considers that these restrictions should be strengthened as far as copyright law is concerned if the proprietor of the right is an author who is a natural person, who should be able to challenge the assignment of the licenses that he himself personally agreed to.

On the other hand, if the license that is to be assigned came about between parties over which the author, who is a natural person, has no control, then he should not be able to oppose it.

- h) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon equitable or public policy considerations?

The restrictions proposed in response to question 17 a) are restrictions that are based on equity within the meaning given to that term in paragraph 20) of the Working Guidelines. Specifically, these restrictions aim to take account of the consequences of the opening of bankruptcy or insolvency proceedings for the co-contracting party of an IP license. These restrictions aim, for instance, to arrive at an equitable compromise between the objective of the bankruptcy or insolvency proceedings and their consequences for the licensee who is the co-contracting party and who is deprived of the licensed right.

On the other hand, these restrictions are not based on public policy considerations within the meaning given to that term in paragraph 19) of the Working Guidelines.

Nevertheless, the implementation of the restrictions proposed in response to question 17 a) would always have to take into account the public policy considerations referred to in response to question 4 b), namely the legal regime applicable to *ex officio* and compulsory licenses, the control of merger transactions and the competition-law rules applicable to essential patents and FRAND licenses.

- i) With regard to sub-paragraph 17(a) above, to what degree, if at all, should such restrictions depend upon the language of the license itself, e.g., a right to terminate upon insolvency or a prohibition against assignment?

The Working Group considers that the limitations to the power of the administrator with regard to the treatment of IP licenses referred to in question 17 a) should not be dependent on the terms of the license itself, such as a clause providing for the termination of the licensee for the prohibition of the assignment of that license on the basis of the opening of a bankruptcy or insolvency proceeding.

This is because such clauses, which worsen the position of the debtor, in particular by diminishing his rights, should be deemed never to have existed and thus be rendered inapplicable so as to facilitate the rehabilitation of the debtor and, more generally, the use of preventive proceedings.

- j) In the event a bankruptcy or insolvency proceeding in your country involves treatment of an IP license between a domestic entity and a foreign entity, which national bankruptcy laws should be applied? Should this depend on the choice of law clause in the IP license? Should this depend on the physical location of the entities or the assets involved?

In the event of a bankruptcy or insolvency proceeding in France involving the fate of an IP license between a domestic entity and a foreign entity, the Working Group considers that the national law of the bankruptcy or insolvency proceeding should apply, i.e. the law of the court which opened the bankruptcy or insolvency proceeding, and thus in the present case French law, since the initial hypothesis is of a bankruptcy or insolvency proceeding in France. This choice should therefore not be dependent on any given clause in the IP license.

However, adjustments could be made to the application of the law of the State in which the bankruptcy or insolvency proceeding were opened in very specific circumstances, for example the law of the State that has granted an IP right that is the subject of a claim should be applicable.

- 18) To the extent not already stated above, please propose any other standards that you believe would be appropriate for harmonization of laws relating to treatment of IP licenses in bankruptcy and insolvency proceedings.

1. In the case of a jointly owned IP right, the question arises of what would be the effect of a bankruptcy or insolvency proceeding opened against a joint owner on the licenses granted by the latter.

The Working Group considers that the existence of joint ownership should not alter the way in which the licenses are dealt with. The administrator or the liquidator should be able to continue or terminate the licenses under the normal conditions. In the event of a court-ordered assignment of the share of the IP right licensed, the licenses should be dealt with in the same way as for a right held by one single proprietor.

2. In the event of termination of the IP license by the administrator or liquidator, the question arises of whether the licensee must be compensated and, if so, subject to what conditions.

It would seem equitable to the Working Group for the licensee whose license is unilaterally terminated in a bankruptcy or insolvency proceeding to be compensated by the awarding of damages.

Given that, in principle, the licensor is insolvent, the question arises of how highly this debt of damages owed should rank in terms of priority. The Working Group considers that it should rank higher than debts that came into being before the opening of the bankruptcy or insolvency proceeding and should benefit of an equal ranking with the debts that come into being during the proceeding for operating purposes.

3. In the event of IP licenses being granted, or even IP rights being assigned, during a period prior to the opening of a bankruptcy or insolvency proceeding, the Working Group considers that they should be able to be challenged in accordance with the principle of agreements being null and void during the “hardening period” recognised in French law (**see question 11**).



## **SUMMARY**

### **I. Legislation and practices in force**

French law on insolvency proceedings, within the meaning of paragraph 5) of the Working Guidelines, provides for the proceedings of safeguard, rehabilitation and judicial liquidation (together “the bankruptcy or insolvency proceedings”).

The law makes no distinction between, on the one hand, IP rights and licenses relating to these rights and, on the other hand, other types of property rights and contracts, with the exception of specific copyright provisions aiming to protect the authors in case of bankruptcy or insolvency proceedings affecting a publisher or a producer of an audiovisual work.

French law includes a registration system before the competent offices for IP licenses concerning industrial property rights obtained by way of filing (patents, trade marks, designs, plant variety rights). The sole effect of these registrations is for the IP licenses to be enforceable towards third-parties. Hence, they do not have any impact on bankruptcy or insolvency proceedings.

French law on bankruptcy and insolvency proceedings is of a public-policy nature and its application is territorial. In private international law, the principle is the application of the law of the place of opening of the bankruptcy or insolvency proceedings. The jurisdiction of French courts depends on a minimum degree of presence on French territory of the debtor, notwithstanding the possible choice by the parties to an IP license of a particular law governing their contract. Furthermore, privileges of jurisdiction, based on the French nationality, shall apply to bankruptcy and insolvency proceedings. More particularly with regard to bankruptcy or insolvency proceedings opened in a Member State of the European Union, it is necessary to refer to Council Regulation (EC) n°1346/2000/of 29 May 2000 on insolvency proceedings.

The opening of a bankruptcy or insolvency proceeding does not automatically terminate current contracts. The regime relating to current contracts applies even to contracts entered into *intuitu personae*, which is generally the case of IP licenses. The bankruptcy administrator within the meaning of paragraph 6) of the Working Guidelines has an exclusive option to terminate or to continue the current contracts. If the contract is continued, it must be performed according to all its provisions with no possibility of modifications.

The bankruptcy or insolvency proceeding may result in a sale plan approved by the court, which leads in particular to the assignment of current rental or supply contracts (which includes IP licenses) that are necessary for carrying on the business, regardless of the possible *intuitu personae* nature of such contract and notwithstanding a possible clause prohibiting or restricting the assignment of the contract on account of it being *intuitu personae*.

A clause of an IP license which provides that one of the parties to the contract may terminate the latter in the event of a bankruptcy or insolvency proceeding being opened against another party is, in any case, null and void and deemed not to have ever existed. Likewise, any clause which amends the conditions of continuation of a current contract by reducing the rights or increasing the obligations of the debtor due to the mere opening of a bankruptcy or insolvency proceeding is prohibited. The clause establishing a contractual right of pre-emption in favour of the licensee will be enforceable in case of sale by private agreement of a business or an IP right but may be challenged in case of a court-ordered assignment of the contract or the IP right (sale plan approved by the court).

A licensee whose license is terminated during a bankruptcy or insolvency proceeding is not entitled to continue using the underlying IP rights and can only seek for damages, the recovery of which is uncertain.

French law equally applies to sub-licenses and main licenses or to sole, exclusive or non-exclusive licenses.

## **II. Proposals for substantive harmonisation**

The French Group proposes to take better account of the specific nature of IP licenses and the consequences –which are often serious- that the exorbitant and arbitrary powers of the bankruptcy administrator can have on the situation of the parties to an IP license. At the same time, the French Group is in the view that this must not jeopardize the objectives of bankruptcy or insolvency proceedings (ability for the bankruptcy administrator to keep the business ongoing or to sell it, and thus to preserve jobs).

Consequently, the French Group suggests that:

- The bankruptcy administrator should be able to enter into new IP license agreements if such contracts appear necessary in order for the licensor-debtor's to carry on its business, unless a current sole or exclusive license agreement, which has been maintained, exists in relation to the IP right concerned.
- The bankruptcy administrator should not have the right to amend the IP licenses without the agreement of the co-contracting party.
- It should be compulsory for the bankruptcy administrator to consult the co-contracting party to a license before any -motivated- decision relating to the assignment or termination of a current IP license agreement is taken. This decision should be submitted to the judge, who should have the final decision.
- In the event of an assignment of the license (and of the IP right granted):
  - If the licensor is the debtor, a pre-emption right in favour of the licensee should be instituted; such right would apply unconditionally in the event of the sole assignment of the contract (and of the IP right) and would only apply if the licensee had the wherewithal to resume operation of the entire branch of the concerned business in case of a global sale of such branch. Such a right would only apply if the licensee's conditions for recovery were at least equivalent to those offered by a third party and provided the licensee does not assert its right in an abusive manner.
  - If the licensee is the debtor, the bankruptcy administrator should be able to assign the IP license to a third party; however, the licensor should be able to challenge such assignment by evidencing the existence of a fair ground, assessed by the judge.

- In the event of a termination of the IP license, the licensee, who is the co-contracting party of the debtor-licensor, should be able to request a court-ordered license, subject to royalties, if it can prove that its economics position would be irreparably compromised if such license were not granted; such proof being subject to review by the judge.
- The licensee whose license is terminated during a bankruptcy or insolvency proceeding should be compensated by the award of damages. This debt should be preferential and enjoy an equal ranking with the debts arising during the proceeding for operating purposes.

The French Group considers that all its recommendations should not depend upon particular factors such as:

- Pre-bankruptcy registration of the IP licenses;
- Existence of a security interest in the underlying IP rights in favour of the licensee;
- The nature of the IP license (main license or sublicense, sole, exclusive or non-exclusive license, subject to what is indicated above with respect to the possibility to grant new licenses);
- The type of IP right licensed (with the exception of the author who is a natural person, who should be able to challenge the assignment of the licenses that he granted personally);
- The language of the license itself.

Finally, the French Group considers that in the event a bankruptcy or insolvency proceeding would involve the treatment of an IP license between a domestic entity and a foreign entity, the applicable law should be the law of the State where the proceeding was opened, notwithstanding the parties' choice for (another) applicable law.

## **RESUME**

### **I. Analyse du droit positif en vigueur**

Le droit français des procédures collectives connaît au sens du point 5) des Orientations de travail, les procédures de sauvegarde, de redressement judiciaire et de liquidation judiciaire (ensemble « les procédures collectives »).

Il ne fait aucune distinction entre les droits de PI et les licences portant sur ces droits d'une part et les autres types de droits de propriété et de contrats d'autre part, à l'exception de dispositions particulières en matière de droit d'auteur visant à protéger les auteurs en cas de procédure collective affectant un éditeur ou un producteur d'œuvre audiovisuelle.

Le droit français comporte un système d'enregistrement des licences de droits de PI auprès des offices s'agissant des droits de propriété industrielle obtenus par dépôt (brevets, marques, dessins et modèles, obtentions végétales). Le seul effet de ces inscriptions est l'opposabilité aux tiers et elles n'ont pas d'incidence en matière de procédure collective.

Le droit français des procédures collectives est d'ordre public et d'application territoriale. En droit international privé interne, le principe est l'application de la loi du lieu d'ouverture de la procédure collective. La compétence des tribunaux français dépend d'une localisation minimale de l'entreprise sur le territoire français et ce nonobstant l'éventuel choix par les parties à un contrat de licence de droits de PI d'une loi particulière applicable à leur contrat. Par ailleurs, des règles de privilèges de juridiction, fondées sur la nationalité française, sont applicables aux procédures collectives. S'agissant en particulier des procédures collectives ouvertes dans un État membre de l'Union européenne, il y a lieu de se référer au Règlement communautaire n°1346/2000/CE du Conseil du 29 mai 2000 relatif aux procédures d'insolvabilité.

L'ouverture d'une procédure collective n'emporte pas résiliation de plein droit des contrats en cours. Le régime des contrats en cours s'applique même aux contrats conclus *intuitu personae*, ce qui sera généralement le cas des contrats de licence de droits de PI. Seul l'administrateur au sens du point 6) des Orientations de travail a la faculté de décider de résilier ou de poursuivre les contrats en cours. Si le contrat est poursuivi, il devra l'être en toutes ses dispositions sans possibilité de modifications.

La procédure collective peut déboucher sur un plan de cession arrêté par le tribunal, lequel emportera notamment cession des contrats en cours de location ou de fourniture (tel un contrat de licence de droits de PI) nécessaires à la poursuite de l'activité, et ce indépendamment du possible caractère *intuitu personae* d'un tel contrat et nonobstant la présence éventuelle d'une clause contractuelle prohibant ou restreignant la cession du contrat en raison d'un tel caractère.

La clause d'un contrat de licence de droit de PI prévoyant que l'une des parties au contrat peut résilier ce dernier en cas d'ouverture d'une procédure collective à l'encontre d'une autre partie est, dans tous les cas, nulle et réputée non-écrite. De même est interdite, toute clause qui modifie les conditions de poursuite d'un contrat en cours en diminuant les droits ou en aggravant les obligations du débiteur du seul fait de l'ouverture de la procédure collective. La clause instituant un droit conventionnel de préemption au profit du licencié sera opposable dans le cas d'une cession de gré à gré de fonds de commerce ou du droit de PI mais pourra être remise en cause dans le cadre d'une cession judiciaire du contrat ou du droit de PI (plan de cession arrêté par le tribunal).

Le licencié qui voit sa licence résiliée au cours d'une procédure collective n'a pas le droit de continuer à utiliser les droits de PI sous-jacents et ne peut prétendre qu'à des dommages-intérêts, dont le recouvrement est au demeurant incertain.

La loi française s'applique indifféremment aux sous-licences et licences principales ou aux licences uniques, exclusives ou non-exclusives.

## **II. Propositions pour l'adoption de règles uniformes**

Le Groupe français propose de davantage prendre en considération la nature particulière des licences de droits de PI et les conséquences, souvent graves, que peuvent avoir sur la situation des parties à la licence, les pouvoirs exorbitants et arbitraires de l'administrateur judiciaire, en respectant toutefois les objectifs propres aux procédures collectives (faculté pour l'administrateur judiciaire de maintenir ou céder l'activité du débiteur et, partant, de maintenir l'emploi).

Dès lors, le Groupe français suggère que :

- L'administrateur judiciaire devrait pouvoir conclure de nouveaux contrats de licence de droits de PI si de tels contrats apparaissent nécessaires à la pérennité de l'activité du concédant débiteur, sauf s'il existait un contrat de licence unique ou exclusive en cours et maintenu relatif au droit de PI concerné.
- L'administrateur judiciaire ne devrait pas avoir le droit de modifier les contrats de licence de droits de PI, sans l'accord du cocontractant du débiteur.
- L'administrateur judiciaire devrait obligatoirement consulter le cocontractant du débiteur avant toute décision, motivée, relative à la cession ou à la résiliation d'un contrat de licence de droits de PI en cours. Cette décision serait soumise au contrôle du Juge, auquel appartiendrait la décision finale.
- En cas de cession du contrat de licence (et du droit de PI concédé) :
  - Si le concédant est le débiteur, un droit de préemption devrait être instauré au profit du cocontractant licencié, lequel droit jouerait de manière inconditionnelle en cas de cession isolée du contrat (et du droit de PI) et ne jouerait que si le licencié a les capacités de reprendre l'exploitation de toute la branche d'activité en cas de cession globale d'une telle branche d'activité. Un tel droit ne jouerait que si les conditions de reprise du licencié étaient au moins équivalentes à celles proposées

par un tiers, et sous réserve que le licencié n'exerce par ce droit de manière abusive ;

- Si le licencié est débiteur, l'administrateur judiciaire devrait pouvoir céder le contrat de licence de droits de PI à un tiers ; le concédant aurait néanmoins le droit de s'y opposer en démontrant l'existence d'un juste motif, appréciée par le Juge.
- En cas de résiliation du contrat de licence de droits de PI, le licencié cocontractant du débiteur concédant devrait pouvoir solliciter une licence judiciaire, soumise à redevances, s'il établit que sa situation économique sera irrémédiablement compromise à défaut de concession d'une telle licence, une telle preuve étant soumise à l'appréciation du Juge.
- Le licencié qui voit sa licence résiliée dans le cadre d'une procédure collective, devrait pouvoir être indemnisé par l'octroi de dommages-intérêts, cette créance étant privilégiée et bénéficiant d'un rang égal à celui des créances nées au cours de la procédure pour les besoins de l'exploitation.

Le Groupe français estime que l'ensemble de ses préconisations ne devraient pas dépendre de facteurs particuliers tels :

- l'enregistrement des contrats de licence de PI préalablement à l'ouverture de la procédure collective ;
- l'existence d'une sûreté en faveur du licencié sur les droits de PI sous-jacents ;
- la nature du contrat de licence de droits de PI (licence principale ou sous-licence, licence unique, exclusive ou non-exclusive, sous réserve de ce qui est indiqué ci-avant s'agissant de la possibilité de concéder de nouvelles licences) ;
- le type de droit de PI concédé en licence (sauf le cas de l'auteur personne physique lequel devrait pouvoir s'opposer à la cession des licences qu'il aurait lui-même consenties) ;
- les termes mêmes du contrat de licence.

Enfin, le Groupe français estime que dans le cas où une procédure collective impliquerait le traitement d'une licence de droits de PI entre une entité domestique et une entité étrangère, la loi applicable devrait être celle de l'Etat d'ouverture de la procédure collective nonobstant le choix des parties d'une (autre) loi applicable à leur contrat.



## RESUMEE

### I. Analyse des geltenden positiven Rechts

Das französische Insolvenzrecht kennt, im Sinne des Punkt 5) der Arbeitsrichtlinien, Schutzverfahren, gerichtliche Sanierungsverfahren und gerichtliche Liquidationsverfahren (zusammenfassend „die Insolvenzverfahren“).

Es unterscheidet in keiner Weise zwischen den Rechten am geistigen Eigentum und den Lizenzen an diesen Rechten einerseits und den anderen Eigentums- und Vertragsrechten andererseits, mit Ausnahme der besonderen Bestimmungen im Urheberrecht, die darauf abzielen, die Urheber im Falle der Insolvenz eines Verlegers oder Produzent eines audiovisuellen Werkes zu schützen.

Das französische Recht sieht ein Eintragungssystem für die Lizenzen über Rechte am geistigen Eigentum bei Ämtern vor, nämlich für Rechte am gewerblichen Eigentum, die durch Hinterlegung erlangt werden (Patente, Marken, Gebrauchsmuster, Züchterrechte). Die einzige Wirkung dieser Eintragungen ist die Wirksamkeit gegenüber Dritten, sie haben keine Auswirkungen auf das Insolvenzverfahren.

Das französische Insolvenzrecht ist „*d'ordre public*“ mit territorialem Anwendungsbereich. Im innerstaatlichen internationalen Privatrecht gilt das Prinzip der Anwendung des Rechts am Ort der Eröffnung des Insolvenzverfahrens. Die Zuständigkeit der französischen Gerichte hängt von einer Mindestortsansässigkeit des Unternehmens auf dem französischen Staatsgebiet ab, und dies unbeschadet der eventuellen Wahl der Parteien eines Lizenzvertrages für Rechte am geistigen Eigentum, auf den ein besonderes Recht Anwendung finden soll. Im Übrigen sind Bestimmungen über auf die französische Staatsangehörigkeit gestützte Vorrechte der Gerichtszuständigkeit auf Insolvenzverfahren anwendbar. Wenn es sich speziell um Insolvenzverfahren handelt, die in einem Mitgliedstaat der Europäischen Union eröffnet worden sind, ist auf die EG-Verordnung Nr. 1346/2000/EG des Rates vom 29. Mai 2000 über Insolvenzverfahren zu verweisen.

Die Eröffnung eines Insolvenzverfahrens führt nicht automatisch zur Auflösung der laufenden Verträge. Die Regelung der laufenden Verträge findet selbst auf die „*intuitu personae*“ geschlossenen Verträge Anwendung, was allgemein auf Lizenzverträgen über geistiges Eigentum zutrifft.

Ausschließlich der Insolvenzverwalter im Sinne des Punkt 6) der Arbeitsrichtlinien hat die Befugnis, zu entscheiden, die laufenden Verträge zu kündigen oder fortzusetzen. Wenn der Vertrag fortgesetzt wird, muss er in all seinen Bestimmungen fortgesetzt werden, ohne Änderungsmöglichkeiten.

Das Insolvenzverfahren kann auf einen durch das Gericht aufgestellten Veräußerungsplan hinauslaufen, der insbesondere die Abtretung der für die Fortführung der Geschäftsaktivität erforderlichen laufenden Miet- und Lieferverträge (wie der Lizenzvertrag über Rechte am geistigen Eigentum) mit sich bringt, und dies unbeschadet eines möglichen „*intuitu personae*“ Charakters eines solchen Vertrages und ungeachtet einer eventuellen Vertragsklausel, die eine Abtretung des Vertrages gerade wegen dieses Charakters verbietet oder eingrenzt.

Die Klausel eines Lizenzvertrages über Rechte am geistigen Eigentum, die vorsieht, dass eine der Parteien des Vertrages diesen im Falle der Eröffnung eines Insolvenzverfahrens über das Vermögen der anderen Partei kündigen kann, ist in jedem Falle null und nichtig. Ebenfalls unzulässig ist jede Klausel, die die Modalitäten der Fortsetzung eines laufenden Vertrages abändert, indem sie, einzig wegen der Eröffnung des Insolvenzverfahrens, die Rechte des Schuldners einschränkt oder die Pflichten des Schuldners erweitert. Eine Klausel, die ein vertragliches Vorkaufsrecht zugunsten des Lizenznehmers vorsieht, ist im Falle einer gütlichen Abtretung des Geschäftsvermögens oder des Rechts am geistigen Eigentum Dritten gegenüber wirksam, kann aber im Rahmen eines Übergangs des Vertrages oder des Rechts am geistigen Eigentum kraft Richterspruchs (durch Gericht aufgestellter Abtretungsplan) in Frage gestellt werden.

Der Lizenznehmer, dem seine Lizenz im Laufe eines Insolvenzverfahrens gekündigt wird, ist nicht berechtigt, die zugrunde liegenden Rechte am geistigen Eigentum weiter zu nutzen und kann nur Schadensersatzansprüche geltend machen, deren Erfüllung im Übrigen ungewiss ist.

Das französische Recht findet unterschiedslos auf Unterlizenzen und Hauptlizenzen oder auf Einzel-, Exklusiv oder Nicht-Exklusivlizenzen Anwendung.

## **II. Vorschläge für die Übernahme von einheitlichen Rechtsvorschriften**

Die Gruppe Frankreich schlägt vor, die besondere Art der Lizenzen an den Rechten am geistigen Eigentum und die oftmals schwerwiegenden Folgen, die die übermäßigen und willkürlichen Rechte des Insolvenzverwalters auf die Situation der Lizenz-Parteien haben können, besser zu berücksichtigen, wobei die den Insolvenzverfahren eigenen Ziele (Befugnis des Insolvenzverwalters, die Tätigkeit des Schuldners fortzusetzen oder zu übertragen und damit die Arbeitsplätze zu erhalten) gleichwohl gewahrt werden sollen.

Infolgedessen schlägt die Gruppe Frankreich folgendes vor:

- Der Insolvenzverwalter sollte neue Lizenzverträge über Rechte am geistigen Eigentum abschließen können, wenn solche Verträge für den Fortbestand der Tätigkeit des lizenzgebenden Schuldners erforderlich erscheinen, sofern kein laufender und aufrechterhaltener, an das betroffene Recht am geistigen Eigentum gebundener Einzel- oder Exklusivlizenzvertrag besteht.
- Der Insolvenzverwalter sollte nicht das Recht haben, die Lizenzverträge über Rechte am geistigen Eigentum ohne die Zustimmung des Vertragspartners des Schuldners zu ändern.
- Der Insolvenzverwalter sollte den Vertragspartner des Schuldners zwingend vor jeder, begründeten, Entscheidung bezüglich der Abtretung oder Beendigung eines laufenden Lizenzvertrages über Rechte am geistigen Eigentum zu Rate ziehen. Diese Entscheidung würde zur Prüfung dem Richter unterbreitet, dem die endgültige Entscheidung obliegt.

- Im Falle der Abtretung des Lizenzvertrages (und des lizenzierten Rechts am geistigen Eigentum):
  - Wenn der Lizenzgeber Schuldner ist, sollte ein Vorkaufsrecht zugunsten des lizenznehmenden Vertragspartners eingeräumt werden; dieses Recht gilt bedingungslos im Falle der isolierten Abtretung des Vertrages (und des Rechts am geistigen Eigentum); im Fall der globalen Abtretung des gesamten Geschäftsbereichs gilt dies nur, wenn der Lizenznehmer die Fähigkeiten hat, den Betrieb eines ganzen solchen Geschäftsbereichs zu übernehmen. Ein solches Recht gilt nur, wenn die Übernahmebedingungen des Lizenznehmers mindestens denen durch einen Dritten angebotenen entsprechen haben und unter dem Vorbehalt, dass der Lizenznehmer dieses Recht nicht missbräuchlich ausübt;
  - Wenn der Lizenznehmer Schuldner ist, sollte der Insolvenzverwalter den Lizenzvertrag über Rechte am geistigen Eigentum an einen Dritten abtreten können; der Vertragspartner hätte dennoch das Recht, dem zu widersprechen, indem er einen triftigen Grund vorbringt, der vom Richter gewürdigt wird.
- Im Falle der Kündigung des Lizenzvertrags über Rechte am geistigen Eigentum sollte der lizenznehmende Vertragspartner des lizenzgebenden Schuldners eine gerichtliche Lizenz, die Lizenzgebühren unterliegt, beantragen können, wenn er darlegt, dass seine wirtschaftliche Situation ausweglos gefährdet ist, wenn ihm nicht eine solche Lizenz eingeräumt wird; ein solcher Nachweis unterliegt der richterlichen Würdigung.
- Der Lizenznehmer, dem seine Lizenz im Rahmen eines Insolvenzverfahrens gekündigt wird, sollte durch die Einräumung von Schadensersatz entschädigt werden können; diese Forderung wäre privilegiert und hätte einen Rang, der dem entspricht, den die im Rahmen des Insolvenzverfahrens für den Betrieb erforderlichen Forderungen genießen.

Die Gruppe Frankreich meint, dass all diese Befürwortungen nicht von besonderen Faktoren abhängen sollten, wie z.B.:

- Die Eintragung der Lizenzverträge über Rechte am geistigen Eigentum vor der Eröffnung des Insolvenzverfahrens;
- Das Bestehen einer Sicherheit zugunsten des Lizenznehmers an den zugrunde liegenden Rechten am geistigen Eigentum;
- Die Art des Lizenzvertrages über Rechte am geistigen Eigentum (Hauptlizenz oder Untertizenz, Einzellizenz, Exklusiv- oder Nicht-Exklusivlizenz, vorbehaltlich dem vorangehenden bezüglich der Möglichkeit der Erteilung neuer Lizenzen);

- Die Art des Rechts am geistigen Eigentum, das lizenziert wird (außer im Falle einer natürlichen Person als Urheber, die der Abtretung der Lizenzen widersprechen kann, die sie selbst eingeräumt hat);
- Der Wortlaut selbst des Lizenzvertrages.

Schließlich meint die Gruppe Frankreich, dass für den Fall, dass ein Insolvenzverfahren die Behandlung eines Lizenzvertrags über Rechte am geistigen Eigentum zwischen einem einheimischen Rechtsträger und einem ausländischen Rechtsträger betrifft, das Recht des Staates anwendbar sein sollte, in dem das Insolvenzverfahren eröffnet worden ist, ungeachtet der Wahl der Parteien eines (anderen) auf ihren Vertrag anwendbaren Rechts.