LICENCE AGREEMENTS AND INSOLVENCY PROCEEDINGS UNDER SPANISH LAW

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ABSTRACT

This article analyses the impact of insolvency proceedings on licence agreements which are aimed at protecting intellectual property rights from the perspective of Spanish Law. The article takes as its starting point the assumption that, in the event of insolvency being declared, any licence agreements entered into by the debtor are, as is the case with the debtor's assets, equally subject to the same principles and rules regulating insolvency proceedings, which justify exceptional legal solutions that diverge from those resulting from the application of ordinary contract principles.

First, some brief preliminary considerations on the nature of rights under a licence agreement and their treatment within the framework of insolvency proceedings are presented. Secondly, the different effects of the opening of insolvency proceedings on the licence are examined: the ineffectiveness of contractual clauses providing for the termination of the contract following the opening of insolvency proceedings, the treatment given to cases of non-fulfilment of contractual obligations on the part of the debtor, and the potential termination or cancellation of the licence agreement in the interest of the insolvency proceedings. Thirdly, by adopting the point of view of the insolvent licensee, this article will review the most relevant issues related to the performance of the licence agreement within a context of insolvency proceedings. The importance of precise and clear contract drafting which may provide legal certainty regarding the terms and conditions which apply to the obligations to be fulfilled will be stressed. Finally, different scenarios of insolvency proceedings in which the licence agreement might be transferred to a third party will be examined, with particular attention being paid to cases in which the licence is incorporated into a production unit. In this latter case, the irrelevance of the *in bonis* party's consent to make this transfer effective will be also discussed.

KEYWORDS: Insolvency proceedings; Contract Law; Intellectual Property Rights; licensee´s insolvency; sale of production unit.

I. Licensed rights, licensing agreements and insolvency proceedings

1. Approaching licensed rights in the context of insolvency proceedings

Licensed rights or, more commonly, a *licence*, are granted upon the signature of a licence contract, also called a *licence agreement* or a *licensing agreement*. Under this contract, the licensee is, in exchange for consideration and subject to the terms and conditions set out in the contract, authorised by the licensor to exploit intellectual property rights (IPRs) owned by the licensor.[1] Examples of IPRs which are subject to licensing include patents, trademarks or designs.

The principal effect of the licensing agreement is that it entitles the licensee to exploit those IPRs owned by the licensor. For this reason, it can be said that the licence confers upon the licensee the right to use or exploit IPRs without a transfer of ownership, within those limits in terms of the territorial scope, aim and period of time defined within the licence agreement (or, in the absence thereof, in the applicable regulations).[2]

In Spain, as is also the case in other countries in the surrounding area, licence rights are widely considered to be personal rights of use or of exploitation, both in case law and in scholarly legal literature.[3] This approach is adopted both in relation to exclusive and non-exclusive licences, and has not been contradicted on the grounds that exclusive licences grant the licensee rights of exploitation which overlap with those of the IPR owner in the scope covered by the licence agreement. In this regard, it is a fact that an exclusive licensee can enjoy rights of exploitation which may be similar in scope to those of the licensor, that they are entitled to take legal action following an infringement of the licensed IPR, and that they are entitled to exploit the protected intangible assets without facing direct competition from third parties. If the licence has been registered,

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[1] In relation to trademark licences, cf. Carlos Fernández-Nóvoa, *Tratado de Derecho de Marcas* (2nd edn, Marcial Pons 2004) 556; Pilar Martín Aresti, *La licencia contractual de patente* (Aranzadi 1997) 36; Pilar Martín Aresti, 'Cesión y licencia de patente y marca', in Alberto Bercovitz (dir.) *Contratos Mercantiles*, T. II Chapter XI (*Contratos sobre bienes inmateriales*) (6th edn, Aranzadi 2017) 1155 and 1201-1202.

[2] If the parties do not define the scope of the licence, it is assumed that this licence permits the exploitation of the licensed IPRs in their full scope, during the duration of these rights and in the territory where they are protected [see art. 83.4, Spanish Patent Act 24/2015 (hereinafter, LP); art. 48.4 Spanish Trademark Act 17/2001 (hereinafter, LM) and art. 60.5 of the Spanish Act 20/2003 on Legal Protection of Industrial Designs (hereinafter, LPJDI)]. Abbreviations used in this article retain their corresponding Spanish acronyms in order to facilitate access to original sources.

[3] In relation to trademark licences, Fernández-Nóvoa, 2004 (n. 1) 556; Manuel Lobato, *Comentario a la Ley 17/2001, de Marcas* (2nd edn, Civitas 2007) 846; María Teresa Ortuño, *La licencia de marca* (Marcial Pons 2000) 142; in relation to patent licensing, Martín Aresti, 1997 (n1) 74; Blas Alberto González Navarro, 'Derecho concursal y Propiedad Industrial: el contrato de licencia', Revista de Derecho Concursal y Paraconcursal (La Ley, No 19, 2013) 6; with a different approach, Raúl Bercovitz, 'Contratos sobre bienes inmateriales', in *Tratado de Contratos,* Rodrigo Bercovitz (dir.) T.IV (Tirant lo Blanch 2013) 5254-5255, for whom a licence is the result of the transfer of the use of the IPR and who considers it to be a right *in rem* in the case of exclusive licences. In France, licence rights have also been traditionally considered to be personal rights. See Paul Mathély, *Le Droit français des brevets d´invention* (Journal des Notaires et des Avocats 1974) 388; Jean-Jacques Burst, *Breveté et licencie: leurs rapports juridiques dans le contrat de licence* (Libraries Techniques 1970) 138-141; René Joliet, 'Le contrat de licencie de brevet en droit belge et français', Revue Trimestrelle de Droit Commercial et des Obligations (Dalloz, No 35, 1982) 174 and 175.

the licensee may even enforce its right *erga omnes.*[4] However, these prerogatives are not considered to be sufficient to allow for the exclusive licensee to be granted with a legal standing equal to that of the owner of a right *in rem.*[5] The legal status of the exclusive licensee is not grounded on, nor does it imply, transfer of ownership of the rights of exploitation of the licensed IPRs. No presumption is to be made that these rights have been disposed of by the owner in order to attribute them to the licensee. Rather, the licensee's exclusivity is founded on the contractual obligation assumed by the licensor to authorise only that particular licensee to exploit the licensed rights, to which the licensor nevertheless retains full and complete title after signing the licence agreement.

In light of what has been presented thus far, licensed rights may be defined as exploitation rights of a personal nature which articulate the position allocated to the licensee under the licence agreement.

The licensing agreement is a bilateral contract of continuing performance which constitutes the rights of exploitation accorded to the licensee on the basis of those reciprocal obligations which the said contract generates for the parties involved. The licensee's rights, be they exclusive or non-exclusive, are based and maintained on the basis of those contractual duties assumed both by the licensor (who agrees and undertakes to grant permission to the licensee to exploit a given IPR and to guarantee the licensee's

[4] Under Spanish Law, the personal nature of licence rights is regarded as being compatible with it being exercisable *erga omnes*. Even though this enforceability vis-à-vis third parties is the most significant effect deriving from the registration of the licence in the Industrial Property Registry under the responsibility of the Spanish Patents and Trademarks Office (OEPM), all types of licence, either exclusive or non-exclusive, can be entered in the registry (cf. arts. 79.2 LP; 46.2 LM and 59.1 LPJDI). This observation, together with the broad consensus in legal scholarly literature concerning the personal nature of licence rights, explains that registration is considered to be an instrument aimed at resolving disputes between legal persons who have acquired mutually incompatible rights in relation to the same IPR. See: José Massaguer, 'El incumplimiento de los contratos de licencia de patente y de licencia de secretos empresariales: concurrencia entre acciones contractuales y acciones por infracción', Revista de Derecho Mercantil (Thomson Reuter ProView No 309, 2018) IV.1; in the field of case law, see Judgment of the Spanish Supreme Court (hereinafter, STS) No. 26/2001 para 2.

[5] In Germany, a significant number of legal scholars have argued that an exclusive patent or trademark licence grants the licensee a right *in rem* or *quasi in rem*. See, for example, Wolfgang Bernhardt and Rudolf Krasser, *Lehrbuch des Patentrechts: Recht der Bundesrepublik Deutschland, Europäisches und Internationales Patentrecht* (C.H. Beck 1986) 692; Rudolf Krasser and Dieter Schmidt 'Der Lizenzvertrag über technische Schutzrechte aus der Sicht des deutschen Zivilrechts', GRUR Int. (1982) 239; Karl Heinz Fezer, *Markenrecht* (3rd edn, C.H. Beck 2001) 1320. However, this is a matter of controversy. It has also been highlighted that the enforceability of the licence against third parties, which is the most significant effect derived from this view of exclusive licence as a right *in rem*, is not determined by the alleged legal nature of that right, but by the registration of the licence itself. See in this regard, Martin Hauser, *Der Patentlizenzvertrag im französischen Recht im Vergleich zum deutschen Recht* (J. Schweitzer Verlag 1984) 39; Alois Troller, *Immaterialgüterrecht*, B. 2 (3rd edn, Helbing und Lichtenhahn 1983) 828. A comprehensive explanation of different views in relation to the nature of the licence contract and of licensee's rights can be found, for instance, in Peter Stiel, *Leistungsstörungen bei Lizenzverträgen aus Sicht des europäischen Rechts* (Herbert Utz Verlag 2009) 5-11; Michael Gross, *Der Lizenzvertrag* (10 edn, Verlag Recht und Wirtschaft 2011) 15-18.

peaceful enjoyment of the granted licensed exploitation rights for the term of the agreement) and by the licensee (who, in turn, undertakes to remunerate the licensor for the applicable licence fee and to exploit the rights granted according to the terms and conditions and within the limits set forth in the contract).[6]

Taking into account the preceding considerations, any analysis of the impact of the treatment of licence rights within the context of insolvency proceedings is to be approached from the assumption that the existence of these rights, their scope and duration depends directly on the validity, the content and the duration of the contractual agreement from which these emanate. Thus, in the event of any of the parties being formally declared insolvent, the treatment of the licensed rights shall be governed by the rules regulating the effects of insolvency proceedings on existing contracts and agreements as set out in the Consolidated Text of the Spanish Insolvency Act (TRLC).[7]

2. Licensed rights and their articulation within insolvency proceedings

Being financially valuable rights in themselves, licensed rights must be properly accounted for in the inventory prepared by the insolvency practitioners.

When the licensee is formally declared insolvent, this licence right must, for information and estimation purposes, be included in the inventory listing those assets and rights on the part of the licensee which form the 'aggregate assets' or 'the insolvency estate' covered by the insolvency proceedings (art. 198.1 TRLC).[8] In the case that it is the licensor who is declared insolvent, licences and other rights of use which have been granted must be also included in the inventory. This is not merely necessary for information purposes, but is also an important factor when it comes to taking into account the significance of these existing rights in the valuation of the IPR and, where appropriate, for gaining accurate knowledge of the actual composition of the so-called 'production unit' within which it is integrated, as the sale of this production unit might be an option for the conclusion of the insolvency proceedings (arts. 199 and 200.1 TRLC).

In contrast, the idea that the licensee might be entitled to a right of separation of assets from the insolvency estate does not seem to be tenable (art. 239 TRLC). This is something which does not derive from the intangible character of the licensed asset, nor from the fact that the licence is a right, as both intangible assets and rights are susceptible to being separated (i.e. excluded from the aggregate assets comprising the insolvency estate)

[6] In relation to patent licensing agreements, Martín Aresti, 1997 (n1) 53-54; in relation to trademark licensing agreements, Ortuño Baeza, 2000 (n1) 159-160.

[7] The TRLC, approved by Spanish Royal Legislative Decree 1/2020 of 5 May 2020, was meant to clarify, harmonise and systematise the rules governing insolvency proceedings following the numerous successive reforms implemented since the enactment of Spain's Insolvency Act 22/2003 of 9 July 2003 (LC). Regarding trademark licensing agreements, cf. José Ramón Salelles Climent, 'Los efectos de la declaración de concurso sobre la licencia de marca en la fase común del concurso', in *Problemas actuales de derecho de la Propiedad Industrial. VI y VII Jornadas de Barcelona de Derecho de la Propiedad Industrial* (Tecnos 2017) 136-144.

[8] See Andrés Recalde Castells, 'La masa activa', in *Regularización, aclaración y armonización de la legislación concursal* (Thomson Reuters ProView 2018) IV.1.

during insolvency proceedings.[9] The reason why it is inappropriate to recognise said right of separation within insolvency proceedings is related to that which has already been explained above, namely, that granting licensing rights does not mean granting the licensee rights of use to the IPR for which ownership might be claimed at a future point in time; it only entitles the licensee to compel the licensor to guarantee the peaceful exercise of rights as permitted under the terms of the agreement. As a result, the subsistence of licensing rights within an insolvency procedure is subject to the continuation of the licence agreement.[10]

II. Treatment of licensing agreements after the opening of insolvency proceedings

Spanish insolvency legislation has not established special rules for contracts concerning intangible assets. For this reason, any contract which is in force on the date that the insolvency order is issued is subject to insolvency regulations that establish the general rules which are to be applied so as to determine the effects of insolvency proceedings on such contracts (arts. 156-165 TRLC).[11]

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[9] Separation in a broad sense might refer both to assets (tangible and intangible) and to rights, and it does not necessarily entail the transfer of possession. It may also refer to the recognition of a right. In the case of the latter, in the context of insolvency proceedings, this legal concept is used to acknowledge the existence of this right so that its value can be deducted from the aggregate assets forming the insolvency estate. On this particular matter, Pilar Álvarez Olalla, 'Separación (art. 64)', in Rodrigo Bercovitz (coord.) *Comentarios a la Ley Concursal*, Vol. I (Tecnos 2004) 953; Andrés Recalde Castells, 'Separación concursal', in Emilio Beltrán and José Antonio García-Cruces (dirs.) *Enciclopedia de Derecho Concursa*l, II (Aranzadi 2012) 2713; Francisco Arias Varona, 'Separación (art. 80)', in Juana Pulgar Ezquerra (dir.) *Comentarios a la Legislación Concursal,* (La Ley 2016) 830; Rafael Marimón Durá, 'Concurso y derecho de separación. Cesión de créditos', in *Jurisprudencia y concurso. Estudios sobre la doctrina de la Sala primera del Tribunal Supremo formada en aplicación de la Ley Concursal*, http://www.tirantonline.com, Document TOL6.097.270 4 (Thomson Reuters ProView 2018).

[10] See Judgment of the Provincial Court (SAP), Barcelona, Spain, No 275/2013, ECLI:ES:APB:2013:9503 (7th para, points 5-7). In this particular case, the plaintiff invoked the right of separation within insolvency proceedings in order to claim ownership over audiovisual broadcasting rights that were formally held by the debtor in respect of various football matches and over which a better right had been acknowledged to the plaintiff by a previous ruling. The Court expressed its doubts on the appropriateness of allowing separation. Finally, the Court issued an unfavourable ruling relying on other provisions which, for additional reasons, hindered the implementation of the ruling. In our opinion, had these rights been properly reflected in the inventory of insolvency proceedings, the recognition of the plaintiff's broadcasting right would have been appropriate, on the grounds that, according to the prior existing contract, the debtor was obliged to authorise the broadcasting during the fixed time period, without prejudice to the inclusion of those broadcasting rights granted to the plaintiff within the inventory of the debtor's aggregate assets for estimation purposes.

[11] There is a wealth of legal scholarly work on the effects of insolvency procedures on existing contracts. The following references have been selected as especially relevant for the purposes of this article: Rafael Bonardell Lenzano, *Régimen de los contratos sinalagmáticos en el concurso* (Tirant lo Blanch 2006); José Ramón García Vicente, 'De los efectos sobre los contratos (artículos 61-63)', in Rodrigo Bercovitz (dir.), *Comentarios a la Ley concursal*, I (Tecnos 2004) 669 ff; ídem, 'El mantenimiento de los contratos de tracto sucesivo en interés del concurso', Anuario de Derecho Concursal (Aranzadi, No 13, 2008) 349 ff; ídem, 'Concurso y contratos', in José Antonio García-Cruces (dir.), *Regularización, aclaración y armonización de la legislación concursal*

1. Permanence of the licensing agreement after the opening of insolvency proceedings

Unless specific legislation so provides, the issuance of the order declaring one of the parties insolvent does not represent sufficient cause for entitling the so-called '*in bonis* party' to terminate the agreement. Art. 156 TRLC reiterates the general and well-established principle in Comparative Law of the continuation of current contracts. The effect of this provision is to render invalid all contractual clauses that stipulate anticipated contractual termination in the case of formal insolvency of any of the contracting parties. This notwithstanding, the ineffectiveness of such clauses does not imply that the licensing agreement should necessarily continue after the insolvency court order, nor that the opening of insolvency proceedings is without consequences.[12] What it entails is that continuation of the contract or its termination is to be determined by the competent bodies –the Court dealing with the insolvency procedure and the appointed insolvency practitioners– who are invested with specific powers and the authority to decide on the fate of existing contracts as this may better serve the collective interest of all creditors (the so-called 'interest of the insolvency proceedings').[13] Acting in favour of this interest requires managing the insolvency proceedings in a manner oriented to maximising the value of the debtor's business. In the case of existing contracts in force on the date upon which the insolvency proceedings are declared opened, acting in the interest of the insolvency proceedings requires assessing the extent to which subsistence of the current contract contributes towards increasing the value of the insolvency estate to the benefit of the creditors of the party formally declared insolvent.[14]

The principle of continuation or permanence of current contracts and how this is treated with regard to the interest of the insolvency proceedings complements and reinforces the general rule contained within art. 111 TRLC, according to which the opening of insolvency proceedings does not imply an interruption of the debtor's economic activity, even though the Court may, under exceptional circumstances, rule that this be the case.[15]

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http://www.tirantonline.com, Document TOL6.097.279 (Thomson Reuters ProView 2018); María Antón Sancho, 'Los contratos con obligaciones recíprocas en el concurso de acreedores', Anuario de Derecho Concursal (Aranzadi, No 32, 2014) 285 ff.; Aurora Martínez Flórez, 'Vigencia de los contratos con obligaciones recíprocas', in Ángel Rojo/Emilio Beltrán (dirs.) *Comentario de la Ley concursal*, I (Civitas 2006) 1117 ff.; idem, 'Consideraciones en torno a la resolución de los contratos por incumplimiento en el concurso', Anuario de Derecho Concursal (Aranzadi, No 13, 2008) 57 ff.; Ana Moreno Sánchez-Moraleda, *Los efectos de la declaración de concurso en los contratos bilaterales* (Tirant lo Blanch 2010); María Luisa Sánchez Paredes, 'Los efectos de la declaración de concurso sobre los contratos', in *El Derecho de la insolvencia: el concurso de acreedores* (Tirant lo Blanch 2015) 473 ff.; idem, 'Los efectos del concurso sobre los contratos', Ángel Rojo and Ana Belén Campuzano (dir.), *Regularización, aclaración y armonización de la legislación concursal* (Thomson Reuters ProView 2018).

[12] Cf. Martínez Flórez, 2004 (n. 11) 1143; Sánchez Paredes, 2018 (n. 11) II.1.

[13] On the complex implications deriving from this concept, see Ignacio Tirado Martí, 'El interés concursal. Ensayo de construcción de una teoría sobre la finalidad del procedimiento concursal', Anuario de Derecho Concursal (Aranzadi No 62 2009) 89 ff.

[14] Cf. García Vicente, 2018 (n. 11) 1, 1.1.

[15] See art. 114 TRLC.

The logic underlying this rule is that those contracts that are either necessary or valuable for ensuring the continuation of the economic activity of the party declared insolvent be retained, while the termination of those contracts which are dispensable for the debtor to carry on business is to be promoted.

The question has been repeatedly been raised as to whether considering IPR licence agreements as *intuitu personae* or *intuitu instrumenti* contracts may justify an exception to the general rule of the continuation of contracts after the opening of insolvency proceedings. In our opinion, such an inference is not easy to defend.[16] In this regard, there is no doubt that the licensor's trust in the capacity and resources of the licensee to exploit the IPR to the full extent possible may be undermined if the licensee is declared insolvent. However, such loss of confidence does not entail that the licensee cannot continue performing the contract once the insolvency proceedings have been opened -in fact, should intervention of the debtor's rights and powers of management and disposal of assets (i.e. supervision of the exercise of these rights by the insolvency practitioners) have been ordered, the licensee clearly can continue to follow its contractual obligations. Nor does this mean that performance should not continue through the licensee's business structure, even in cases when the insolvent licensee has been suspended of its rights of management and disposal of its assets and these powers have been conferred onto the insolvency practitioners.[17] For this reason, at this point it might be preferable to understand that, if the interest of the insolvency proceedings makes a continuation of the contract advisable, this interest overrides that of the *in bonis* party. This is also required by the general principle of continuation of the economic activity carried out by the debtor, inasmuch as accepting anticipated termination of the licensing agreement solely due to the opening of insolvency proceedings would deprive the insolvency estate, especially in the case of the licensee's insolvency, of important assets, thus potentially precluding the continuation of business.

2. Subordination of licence agreements to the interest of insolvency proceedings and effective legal protection of the *in bonis* party

Following the recent reform of Spanish insolvency law, the principle of continuance or permanence of contracts entered into by the debtor applies to all contracts.[18] This

[16] Taking a different approach*,* González Navarro, 2013 (n. 3) 11-13. See, in contrast, Salelles, 2017 (n. 7) 141-142, who is in favour of the continuation of the licensing agreement if this contract can be performed via the insolvency practitioners.
[17] For a general view, Martínez Flórez, 'Artículo 63. Supuestos especiales', in Ángel Rojo/Emilio Beltrán (dir.) *Comentario de la Ley concursal*, I (Civitas 2004) 1179, who already highlighted the exceptional nature of the fact that the debtor is prevented from taking part in the performance of the contract after the insolvency proceedings are declared open. In relation to patent and trademark licences, see Salelles, 2017 (n. 7) 141-142; Martín Aresti, 1997 (n. 1) 349.
[18] In relation to the impact of insolvency proceedings on contracts, TRLC has brought about a significant improvement in the regulatory framework related to this matter and has incorporated a broader regulatory perspective which also encompasses unilateral agreements. For more on the new elements introduced by the reform in this particular matter, see the study by Sánchez Paredes, 2018 (n. 11) mentioned above.

notwithstanding, the normative focus of insolvency regulations continues to lie with those contracts which generate reciprocal obligations.[19] Within this category, the regulation of those contracts which are yet to be fulfilled by both parties at the time of the opening of insolvency proceedings is of special interest for the purposes of this article. This is always the case with contracts of continuing performance (and, thus, of licence agreements). In addition to the rules established in insolvency regulations which are relevant to all types of contracts, a number of specific provisions apply to continuing contracts in particular.

a) Termination of the contract at the request of the *in bonis* party.

As a matter of principle, licence agreements should continue to be performed under the agreed terms and conditions after the insolvency proceedings are declared open.[20] This follows clearly from art. 158 TRLC, which states that *both parties shall fulfil pending obligations*. The pending obligations of the insolvent debtor –i.e. those which are to be fulfilled after the insolvency proceedings are declared open– shall be considered to be claims against the estate itself on the basis of their contribution to the economic activity carried out by the debtor.[21] Claims against the insolvency estate are not subject to reductions and are payable before any insolvency claim. In contrast, any previous obligations which had not been fulfilled prior to the date of the opening of insolvency proceedings shall be considered to be insolvency claims and shall be settled on the principle of *par conditio creditorum* (art. 157 TRLC).

According to art. 1124 of the Spanish Civil Code (CC), the right to terminate the licence agreement may be invoked by either party in the event of failure by the other party to perform its contractual obligations. In this event, termination due to breach of contract can benefit from the application of the particular rule which, under prevailing insolvency law, governs contracts of continuing performance, and according to which the right to terminate the contract may be exercised in the case of non-performance both prior and subsequent to the insolvency proceedings being declared open (arts. 160 and 161 TRLC).[22]

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[19] The fact that both parties are bound (either from inception of the contract or *ex post*) is not sufficient to allow the acknowledgement of the existence of reciprocal obligations. In addition to this, it is decisive that consideration by one party is exchanged for the performance (i.e. consideration) by the other party, and vice versa. See, among other references, STS No 187/2014, ECLI:ES:TS:2014:3898 (5th para, point 1) and No 630/2015, ECLI:ES:TS:2015:4919 (2nd para, point 1.1).

[20] Performance must be understood as referring to the agreement in its entirety. It is therefore not possible to invoke the interest of insolvency proceedings in order to claim the ineffectiveness of some of its clauses. See STS No 68/2013, ECLI:ES:TS:2013:1144 (para 11).

[21] See art. 242(8) TRLC and STS No 630/2015, ECLI:ES:TS:2015:4919 (para 3).

[22] See STS No 4176/2012, ECLI:ES:TS:2012:4176 (paras 45-51); STS No 161/12, ECLI:ES:TS:2012:4176 (para 47) and STS No 187/2014, ECLI:ES:TS:2014:3898 (para 5). These rulings justify termination of the contract in the case of non-performance of obligations prior to the insolvency order on the grounds of the unitary nature of the legal relation created by contracts of continuing performance. Based on this consideration, breaches of contract that took place prior to the commencement of the insolvency procedure are relevant in order to justify termination of the contract after the opening of the insolvency proceedings.

Without prejudice to the ineffectiveness of contractual clauses which provide for termination solely on account of the commencement of the insolvency procedure, the *in bonis* party may terminate the agreement if any of the situations of non-compliance that might have been specified within the licence agreement as instances of fundamental breach leading to contract avoidance occurred.[23] In cases in which the party declared insolvent is the licensee, these situations could include underutilisation of the IPR, i.e. reduced use of the IPR which falls below the agreed minimum exploitation levels, or failure to comply with the required quality standards for the exploitation of the IPR.[24] Of course, the existence of other situations constituting breach of contract as defined in applicable regulations may be invoked, including overexploitation of the IPR by the licensee in a manner which exceeds the limits set forth in the agreement.[25]

In the case of licence agreements, in addition to termination due to failure to fulfil the contract –something which is explicitly provided for in existing insolvency law– prevailing regulations are still unclear as to whether the *in bonis* party may request termination of the contract based on the existence of an additional just cause.[26]

In the context of insolvency proceedings, it is obvious that art. 156 TRLC renders it impossible to accept the mere issuance of the insolvency order as constituting just cause for the termination of the agreement, just as, as has been explained before, it is impossible to invoke that the licence agreement is *intuitu personae* or *intuitu instrumenti*. Therefore, the issue raised here is whether other reasons arising as a consequence of the insolvency proceedings being declared opened may be considered to be relevant in light of the surrounding circumstances.[27] In the case of the licensee's insolvency, these could include, for instance, the evident insufficiency of the insolvency estate for fulfilling future obligations arising from the contract,[28] or the insolvency proceedings being managed in a way that could seriously damage the reputation of the licensor's patent or trademark.[29]

Situations such as those described above could be treated as triggering a risk of non-compliance, a treatment which could justify termination of the contract.[30] Otherwise, there seems to be no good reason to prevent the *in bonis* party from pleading that these circumstances, having occurred after the opening of insolvency proceedings, make the

[23] García Vicente, 2004 (n. 11) 704; this has also been reiterated in STS No 68/2013, ECLI:ES:TS:2013:1144 (para 11).
[24] See STS No 213/2009 dated 6 April (3rd para).
[25] See *infra.*
[26] *Just cause* is a different reason for non-compliance which may also entail termination of the contract, especially in the case of continuing performance contracts. This legal concept includes all situations which prevent the continuation of a given legally binding relation using criteria of reasonableness and fairness. Cf. Martínez Flórez, 2004 (n. 11) 1158; Ángel Carrasco, *Derecho de contratos* (Aranzadi Thomson Reuters 2010) 1105; María José Vaquero, 'Duración del contrato. Extinción del contrato por tiempo de terminado y por tiempo indefinido: el preaviso', in Fernando Carbajo (dir.) *Los contratos de distribución en las propuestas armonizadoras del derecho contractual europeo* (Tirant lo Blanch 2015) 521-522.
[27] Martínez Flórez, 'Artículo 63. Supuestos especiales', op. cit. 1177.
[28] Martínez Flórez, ibid. 1178.
[29] Salelles, 2017 (n. 7) 142.
[30] García Vicente, 2004 (n. 11) 692.

continuance of its contractual obligations unenforceable. However, this plea by the *in bonis* party would not prevent continuation of the contract if the competent insolvency practitioners (or, where appropriate, the Court) were to adopt the measures necessary to remove or modify the situation invoked as a reason for termination.[31] Indeed, in the same manner that, as will be explained later, the Court may render any termination of the agreement which was based on the alleged breach of contract by the debtor inoperative and thus rule that the contract be performed, it should be acknowledged that, on these same grounds, additional situations other than breach of contract that could also be invoked as reasons for terminating the contract may similarly be modified or removed so to favour the continuation of the contract in the interest of the insolvency proceedings. In addition to this, it is important to bear in mind that, while acceptance of anticipated termination of the contract for reasons of just cause does protect the *in bonis* party, acceptance of this modality of contract termination could provide indirect benefits which are in the interest of the insolvency proceedings itself. One example of this is when early termination might prove to be more beneficial to creditors than cancellation of the contract at a later stage in the interest of the insolvency proceedings or based on the debtor's failure to perform the contract.

b) Performance and termination of the contract in the interest of the insolvency proceedings

Even though, as has been explained above, the rules regulating performance of the agreement are fully applicable once an insolvency order has been issued, this initial approach may need to be substantially modified in the interest of insolvency proceedings.

This interest may justify exceptional legal solutions which diverge from those resulting from the application of ordinary contract principles. To the extent that it may result in detriment to the *in bonis* party, insolvency legislation contains provisions which, at least in formal terms, allow this party to be adequately compensated for.[32]

The first possibility is that the licensing agreement be terminated in the interest of the insolvency proceedings (art. 165 TRLC), either with the agreement of both parties or, should this not be given, by decision of the Court (art. 165.2 and 3 TRLC).

In the event of the formal insolvency of the licensee, this will, for example, be the case where interruption of the licensee's total or partial business activity is ordered. If it is the licensor who is declared insolvent, this option might be adopted if the licence granted does not prove to be useful for the aims pursued in the proposed arrangement with creditors[33] or if the separate liquidation of the assets which make up the insolvency estate is considered to be the most suitable option during the winding-up phase of the insolvency

[31] Martínez Flórez*,* ibid*.* 1148.
[32] Cf. García Vicente, 2018 (n. 11) 1. 1.3; in case law, STS No 68/2013 (n. 20) para 11.
[33] See, for instance, the Judgment of the Commercial Court (STJMerc), San Sebastián, Spain, No 114/2018, ECLI:ES:JMSS:2018:1407 (para 5) which ordered the termination of existing patent licensing agreements as they were not included in the viability plan submitted by the insolvency practitioners.

proceedings.[34] As a general rule, the contract shall be terminated if, on the basis of the circumstances of the particular case and in light of the development of the insolvency procedure, this solution is the one that best favours an increase in the value of the aggregate assets forming the insolvency estate.[35]

The frustration of the *in bonis* party's expectations about the contract continuing to be fulfilled provides an explanation for the existing legal provision that, in such cases, the *in bonis* party is to be recompensed in some manner, something which is done by considering the compensation that this party may be entitled to, where appropriate, as a claim against the estate itself (art. 165.3 TRLC).[36] Given this manner of considering the compensation, it can be expected that the insolvency practitioners will act with due caution: first, by assessing whether the estimated financial gain to be obtained as a result of the termination of the licence agreement is less than the compensation for damages that should be made payable to the *in bonis* party[37]; secondly, by devoting efforts to ensuring that the termination is effective within a reasonable deadline.[38] Here, it is important to remember that the later the decision is implemented, the higher the amount to be paid as compensation for damages.

As regards the second possibility, the interest of the insolvency proceedings may also justify that the termination of the contract requested by the *in bonis* party on account of the debtor's default be declared ineffective by the competent Court in the insolvency proceedings, which may order performance of the agreement even though there may be a cause for termination (art. 164 TRLC). In this second scenario, the *in bonis* party forcibly remains bound by the contract at the expense of this party's right to terminate the agreement; a right which is acknowledged under contractual regulations (1124 CC). This provides additional grounds for explaining that the sacrifice required of this party in the

[34] See STJMerc, Madrid, Spain, No 749/2016 (2017), ES:JMM:2017:110 (5th para).
[35] See STS No 186/2016, ECLI:ES:TS:2016:1216 (7th para, point 2) and STS No 660/2016, ECLI: ES:TS:2016:4841 (2nd para, point 6). In relation to a case involving a patent licence, see SAP, Zaragoza, Spain, No 227/2018, ECLI:ES:APZ:2018:978 (9th para).
[36] Termination in the interests of insolvency proceedings does not inevitably result in detriment to the *in bonis* party. Therefore, entitlement to compensation will not always apply; Cf. Martínez Flórez, 2004 (n. 11) 1147-1148. In case law, see, for instance, STS No 660/2016 (n. 35) 2nd para, point 6, and STS No 192/2014, ECLI:ES:TS:2014:3160 (2nd para).
[37] This has also been stressed in STS No 660/2016 (n. 35) 2nd para, point 6.
[38] Existing legislation does not stipulate a time limit for the termination of the contract in the interest of insolvency proceedings. For some authors, this time limit is required in order to ensure the effective legal protection of the *in bonis* party. In their opinion, the time period should not exceed that foreseen for the preparation of the mandatory report by the insolvency practitioners and should, in any case, be reasonable. Cf. Martínez Flórez, 2004 (n. 11) 1150 and 1151; María Gómez Mendoza, 'Efectos del concurso sobre los contratos: cuestiones generales', in *Estudios sobre la ley Concursal, libro homenaje a Manuel Olivencia* (Marcial Pons 2005) 2812; Sánchez Paredes (2015) 491-492; Martín González-Orús, 'Declaración de concurso y contratos: resolución en interés del concurso y resolución por incumplimiento', Ars Iuris Salmanticensis (University of Salamanca No 5, 2017) 116-117; other authors, more concerned with the interest of the insolvency proceedings, argue that no deadline applies to contract termination. See Bonardell Lenzano (n. 11) 68.

interest of the insolvency proceedings needs to be compensated for by considering all the debtor's obligations –including both pending obligations which existed before the opening of the insolvency proceedings and those which arose subsequent to the insolvency order– as claims against the estate itself (art. 164 TRLC).[39]

c) Effects of contract termination

If the licence agreement is terminated (be it at the request of one of the parties or in the interest of the insolvency proceedings), the contract is cancelled, thus leading to settlement and, where appropriate, compensation.

Taking into account that a licence is a contract of continuing performance, the effects of termination are applicable *ex nunc*.[40]

Settlement of the contract might be facilitated by the possibility of offsetting each party's claims against the other party's cross-claims, provided that (1) they are claims against the estate itself[41] or (2) they are insolvency claims which meet the specific requirements set forth in art. 152 TRLC.

In addition to this, in the case of licence agreements, a number of more specific problems will need to be addressed during the settlement stage. These might include the treatment of goods and assets, held by the licensee formally declared insolvent, which were manufactured under the agreement and which incorporate IPRs owned by the licensor (namely, products manufactured under a registered patent, products covered by a given trademark). In such cases, having had the foresight to have included specific provisions in the agreement in relation to the management of the licensee's stock may prove to be useful at this point, as it may help prevent a sale of stock following criteria strictly in accordance with the criteria of the insolvency procedure in such a manner that, in complete disregard of the interests of the *in bonis* licensor, might adversely impact the image of the IPR owner and may even result in an infringement of the licensor's exclusive rights.[42]

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[39] The provision that all liabilities due on the part of the debtor (whether they arise prior or subsequent to the insolvency order) are to be charged against the insolvency estate itself has been expressly incorporated by art. 164 TRLC quoted above, even though the Spanish Supreme Court has been ruling in this sense since 2012 (see STS 145/2012, ECLI:ES:TS:2012:4011 (para 32) and STS 161/2012 ECLI:ES:TS:2012:4176 (para 51). However, this position had raised controversy among an important group of scholars who were in favour of maintaining the general rule of considering liabilities generated prior to the commencement of the insolvency procedure as insolvency claims [see Emilio Beltrán, 'Créditos contra la masa', *Enciclopedia de Derecho concursal* I, 885; García Vicente 2008 (n. 11) 360-362; Martínez Flórez, 2008 (n. 11) 109], on the grounds that the higher costs derived from charging performance of the contract against the aggregate assets could influence the decision on its continuation [see Sánchez Paredes, 2015 (n. 11) 499 – 500].

[40] See Carrasco, 2010 (n. 26) 1150.

[41] See STS No 431/2019, ECLI:ES:TS:2019:2562 (para 3 – 4), which reflects previous case law.

[42] See the questionable STJMerc No 749/2016, Madrid, Spain, (n. 34). After having ordered termination of the trademark licence agreement, the Court authorised the sale of products bearing the *Real Madrid* trademark which the licensee kept in stock to the highest bidder. The owner of

Where appropriate, compensation for damages derived from termination might be determined according to a penalty clause. Case law has accepted the validity of this method for stipulating the compensation to the non-defaulting party in the context of insolvency proceedings, as it is not contrary to prevailing insolvency regulations which provide for compensation for damages caused by termination of the agreement. This notwithstanding, case law has also imposed limitations on the use of this mechanism, which is considered to only be applicable in cases where the amount to be paid pursuant to this penalty clause can be considered compensatory and not punitive in nature.[43] As a result, and despite its widespread use, the limited usefulness of these clauses in the context of insolvency proceedings needs to be highlighted, as any amount clearly exceeding compensation for damages caused by termination, despite being a liability due by the debtor, will be considered a subordinated claim (and, thus, one particularly difficult to recover) in accordance with art. 281.1(4) TRLC.

3. The licensing agreement and a multi-perspective approach for the assessment of its interest for the insolvency proceedings

The opening of the insolvency proceedings truncates the particular conciliation of interests that was agreed upon by the parties when the licensing agreement was entered into. Evaluation of the suitability of either preserving or terminating the contract can be carried out from various perspectives and may differ significantly depending on whether it is the licensor or the licensee who is formally declared insolvent. From the point of view of the debtor, such a decision is to be adopted only in the interest of the insolvency proceedings, irrespective of the consequences that this may entail for the *in bonis* party, which are irrelevant from this stance.

In the event that the licensee is formally declared insolvent, a scenario in which the licensee's economic activity vitally depends on the licensed technology or distinguishing marks suggests that, in most cases, continuation of the contract will be the preferred option as it is the one that better serves the interests of the insolvency proceedings. This might be the case, for example, when subsistence of the contract reveals itself of key importance for ensuring that the business upon which implementation of the arrangement with creditors depends continues operating. This may also be advisable when the licence agreement is part of a production unit that is intended to be sold in order to pay off creditors.

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the trademark opposed the sale, but the ruling justified its authorisation on the grounds that the licensee's business activity had facilitated the introduction of the products in the market. This decision cannot be supported. Firstly, it is to be noted that exhaustion of trademark rights takes place when they are first put on the market, and not simply when they are manufactured. Secondly, consideration should also be given to the fact that a sale as the one discussed above (products bearing a well-reputed trademark and being sold to the highest bidder) would cause such significant damage to the reputation of the trademark that it would preclude the possibility of exhausting the right and would ultimately entitle the trademark owner to allege infringement of its exclusive rights [Cf. C-59/08, *Copad SA v. Christian Dior couture SA* (2009) ECLI:EU:C:2009:260 (paras 22-26)].

[43] See STS No 145/2019, ECLI:ES:TS:2019:710 (2nd para, point 5).

If it is the licensor who is formally declared insolvent, a different perspective needs to be adopted for determining the best fate for the licensing agreement. As a principle, if the contract was being complied with normally by the *in bonis* licensee prior to the opening of the insolvency proceedings, it may be assumed that its continuation will generate royalty revenues which will enlarge the insolvency estate to the benefit of the licensor's creditors. In any case, optimum outturn figures derived from the licensee's exploitation activity is not the only relevant criterion for determining whether to continue with the contract in the case that the licensor is declared insolvent. For instance, if the option taken for concluding the insolvency procedure involves the disposal of the licensee's assets (either by way of a piecemeal disposal of individual assets or by the sale of a production unit integrating a group of assets), the interest of insolvency proceedings may make termination of the licensing agreement advisable so as to favour the outcome that any disposal of the IPRs not be subject to the rights of third parties. Termination under such circumstances may result in obvious detriment to the *in bonis* licensee. Notwithstanding the right to compensation for damages deriving from such termination, the licensee would be deprived of its rights of exploitation, which could significantly impact on the licensee's business structure.

III. Additional issues surrounding the performance of the licensing agreement within the context of insolvency proceedings – in particular, in the case of the formal insolvency of the licensee

In cases where the licensing agreement continues after the licensee is formally declared insolvent, either the licensee itself or the insolvency practitioners will be empowered to carry out the acts and activities for ensuring the fulfilment of those obligations arising out of the agreement. This will depend on the decisions adopted by the Court in relation to the debtor's rights of management and disposal of assets. An 'intervention' or 'suspension' regime (i.e. supervision of the exercise of asset-related rights, in the first case, or replacement of the party declared insolvent by the insolvency practitioners, in the second) may be ordered.[44]

The singularity of those contexts in which a licensing agreement is to be performed after the insolvency proceedings have been declared open underscores the importance of precise and clear contract drafting which may provide legal certainty surrounding the terms and conditions which will apply to those obligations which are to be fulfilled by the licensee. Furthermore, there is a clear need for re-examining the scope of certain provisions contained within the specific regulation of IPRs –in particular those conferring IPR holders certain rights and imposing upon them certain obligations which may have

[44] See art. 106 TRLC. As has been pointed out above (supra II.1, and n. 17), the decisions adopted in relation to the debtor's asset-related rights –even if a suspension regime in relation to the rights of management and disposal of assets is ordered– do not prevent the contract from being performed.

an impact on the actual performance of the licensing contract– within the context of insolvency proceedings.

1. Confidential know-how

If, as it is often the case (especially in the case of patent licensing), the licensing agreement contained an obligation on the part of the licensor to share confidential information concerning technical and business knowledge or know-how with the licensee, the obligation of non-disclosure assumed by the licensee extends to all those individuals who may have access to it by reason of their involvement in the management of the insolvency proceedings (for instance, insolvency practitioners and their collaborators, the competent judge and court staff). In such cases, it is the debtor's duty to collaborate with those operators involved in the insolvency proceedings for the correct identification of such confidential information (arts. 134 and 135 TRLC). Similarly, all procedural measures provided for in prevailing legislation must be adopted in order to preserve the confidentiality of the information considered as such.[45]

The obligation of non-disclosure shall apply for as long as the information retains that confidential nature. For that same reason, the measures to protect confidentiality may also extend their effects beyond the completion of insolvency proceedings.

2. Payment to licensor

As has already been explained, any payment obligations to be fulfilled by the licensee who has been declared insolvent which are generated after the opening of insolvency proceedings are considered claims against the estate itself, whereas those payments that had not been complied with before the opening of the insolvency proceedings are treated as insolvency claims (art. 158 TRLC). Inasmuch as payment to licensor is a primary obligation of the licensee, payment default –either prior or subsequent to the opening of the insolvency proceedings– entitles the licensor to terminate the contract.[46] Acts on the part of the licensee which obstruct the licensor from performing the necessary controls in order to determine the amount of payment due shall be treated in the same terms.[47]

Despite the fact that payment is a primary obligation of the licensee, it must be taken into account that payment default shall only entitle the licensor to terminate the agreement if this can be considered to be significant in nature. For this particular reason, introducing clauses in the agreement which clearly establish the length of the delay (both in the case of fixed and periodic payments) which will entitle the licensor to exercise its rights to terminate the contract in cases of late payment is extremely important. This approach may help to avoid any uncertainty which may derive from potentially diverging opinions on

[45] These measures are specified in *Spanish Act 1/2019, of 20 February, on Business Secrets*, which transposes *Directive (EU) 2016/943, of 8 June 2016, on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure*.
[46] Cf. Carrasco, 2010 (n. 26) 1128.
[47] See SAP, Barcelona, Spain, No 445/2004 (4th para); STJMerc, San Sebastián, Spain, No 114/2018, ECLI:ES:JMSS:2018:1407 (3rd para).

what qualifies as significant payment default and, therefore, to also reduce the risk that the *in bonis* party may experience difficulties when it comes to terminating the contract.[48]

3. Obligation to exploit the licensed IPR

Exploitation of the licensed IPR is another primary obligation to be fulfilled by the licensee. This particular aspect is especially important for the interest of the *in bonis* licensor. Should the licensee exploit the IPR in a manner which is not in accordance with the terms and conditions set out in the contract, this could adversely affect the reputation of said IPR and cause serious damage to the image of the licensor, especially in cases of exclusive licensing agreements by which the licensor did not reserve the right to exploit the IPR jointly with the licensee.[49] Careful drafting of contract clauses may ensure optimum levels of IPR exploitation and can provide certainty on the terms and conditions according to which the agreement is to be performed. By way of illustration, a minimum exploitation volume or the minimum amount of royalties to be achieved in accordance with a given performance level might be stipulated as an obligation to be fulfilled by the licensee.[50]

In the event that the licensee is formally declared insolvent, the development of the insolvency procedure may also lead to non-use of the licensed IPR. In cases of discontinuance (i.e. of permanent cessation) of the exploitation of the IPR, it can reasonably be expected that the insolvency practitioners will, in the interest of insolvency proceedings, promptly promote termination of the agreement. This can particularly be expected to be the case if consideration due to the *in bonis* licensor includes the payment of fixed amounts which, should the agreement continue, would need to be satisfied regardless of whether or not the IPR was being used. If the agreement is not terminated, non-use of the IPR might entail the revocation of that right in accordance with legislation that regulates different types of IPR[51], with the exception of those situations covered by prevailing regulations.

The current –extremely restrictive– conception of the reasons justifying non-use and non-exploitation of a given IPR supports the view that the IPR holder cannot invoke having been formally declared insolvent in order to prevent the revocation of those rights. Insolvency proceedings are widely considered a business risk factor in Spanish legal scholarship and case law[52] which cannot be understood as an objective circumstance

[48] García Vicente, 2004 (n. 11) 692.
[49] Under Spanish Law, in the case of exclusive licences, if the licensor has not expressly reserved this right, it is assumed that this licensor is also excluded from exploiting the IPR together with the licensee within the scope that was authorised under the agreement (arts 83.6 LP, 48.6 LM and 60.3 LPJDI).
[50] Cf. Martín Aresti, 2017 (n. 1) 1181. Such a case was considered in SAP, Barcelona, Spain, No 1331/2019, ECLI:ES:APB:2019:8714 (para 15).
[51] See art. 19.1 Directive (EU) 2015/2436; art. 58.1 Regulation (EU) 2017/1001 of 14 June 2017 on the European Union trade mark.
[52] Cf. in relation to the trademark, Felipe Palau Ramírez, *La obligación de uso de la marca* (Universitat de Valencia 2004) 167-170; Fernando Carbajo, 'Artículo 39. Uso de la marca', in Alberto Bercovitz (dir.) *Comentario a la Ley de Marcas* I (2nd edn, Aranzadi 2008) 653; with a

beyond its owner's control. Therefore, according to this view, the opening of insolvency proceedings cannot be invoked for justifying non-use of the IPR.[53]

For the purposes of this article, the question may be raised as to whether a differential approach should be taken when non-use occurs, not as a result of the IPR owner, but rather the licensee being formally declared insolvent – particularly where this involves an exclusive licensee bound by a contract which prohibits the *in bonis* party from exploiting the IPR itself. In this specific case, and assuming an unlikely scenario in which the insolvency practitioners did not promote termination of the contract on account of non-use of the IPR, it could be considered that the licensee's insolvency would also have to be endured by the IPR owner – as is the case with any other business risk. However, under particular circumstances, the obligation to continue fulfilling the licensing agreement could be regarded as a legal obstacle which thus justifies non-use by the IPR owner, thereby stopping the clock when it comes to calculating the period of non-use applicable for revocation (in the case of trademarks) and for the imposition of compulsory licences affecting an existing IPR (in the case of patents). The issue is controversial, though one option to dispel existing doubts on the matter could be to consider non-use as justified when the *in bonis* licensor has unsuccessfully attempted to terminate the licensing agreement on account of non-use and non-exploitation of the IPR.

4. Infringement of the limitations regarding the exploitation of the IPR set forth in the licensing agreement

In the case that the licensee is formally declared insolvent, a situation could arise where the activities for the exploitation of the IPR fall outside the terms of the agreement because they flout the limits for which use was authorised by the licensor. In these cases, the specific regulatory framework for IPR protection entitles the licensor to bring proceedings against the licensee for infringement of the exclusive rights concerned.[54] Existing provisions take as their starting point the assumption that, in such a situation, the licensee may receive the same treatment as any other infringing third party who exploits protected IPRs without authorisation from their owner. However, a licensee who exceeds the limits set out under the contract in relation to the licensed rights of exploitation also contravenes the specifications contained within the licensing agreement. For this reason, in those cases, the licensor may have two options for restraining such behaviour: on the

similar approach, Salelles, 2017 (n. 7) 149-151. In case law, see STS No 724/2015, ECLI:ES:TS:2015:5416 (6th para) for a dismissal of the view that the opening of insolvency proceedings might justify interruption of the use of the IPR. A critical comment on this ruling is found in Ramón Morral Soldevilla, 'La liquidación concursal como causa justificativa de la falta de uso de la marca (Comentario de la Sentencia del Tribunal Supremo [1ª] de 22 de diciembre de 2015)', Anuario de Derecho Concursal (Aranzadi No 38, 2016)], who stresses the need for taking into account the particular circumstances surrounding the insolvency proceedings.

[53] Cf. Palau, op. cit., 169-170.

[54] See art. 25.2. Regulation (EU) 2017/1001; art. 32.2 Regulation (EC) No 6/2002 of 12 December 2001 on Community designs.

one hand, to invoke breach of contract; on the other hand, to bring an action for infringement.[55]

The treatment of a situation in which the licensee is declared insolvent deserves additional examination and requires, above all, first determining which option might be the most suitable by weighing up the advantages and disadvantages of each one.

First and foremost, consideration must be given to the fact that bringing proceedings for infringement –which are to be initiated by a petition to the Court dealing with insolvency proceedings if the action is filed after the insolvency order[56]– does not necessarily require prior termination of the agreement,[57] as such action provides protection to the licensor in its capacity as owner of the IPR and not as a party to an unperformed contract.[58] Additionally, as an action for IPR infringement is a type of action for noncontractual liability arising out of an unlawful act, the Court dealing with insolvency proceedings has no authority to render such action inoperative, in contrast to what would occur should the licensor decide to request to terminate the contract, in which case the Court may order performance of the agreement.

Whether the right to terminate the agreement for breach of contract is invoked or an action for infringement is brought, any damage sustained as a result of use by the licensee without the authorisation of the *in bonis* licensor will be compensated for. However, as the methods used for determining the scale of such compensation vary depending on the option taken, the amount to be paid may differ[59], with the possibility of compensation in actions for IPR infringement being greater than the actual damages suffered.[60] This difference would, *a priori,* offer solid grounds for opting for this second remedy.

However, the singularity of insolvency proceedings requires considering a number of constraints that would perhaps advise against bringing an action for infringement. Firstly, the fact that any compensation ordered in the wake of infringement proceedings will be considered an insolvency claim (art. 280.5 TRLC) needs to be taken into account. In contrast, compensation for termination, provided that this is not based solely on a breach which occurred before the opening of the insolvency proceedings, will be considered a

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[55] SAP, Alicante, Spain, No 201/2017, ECLI:ES:APA:2017:800 (2nd para); SAP, Alicante, Spain, No 345/12 ECLI:ES:APA:2012:2198 (2nd para). Cf. Fernández-Nóvoa, 2010 (n. 1) 449; Martín Aresti, 2017 (n. 1) 1186-1187; Massaguer, 2018 (n. 4) III.

[56] Art. 136 TRLC. In case the action had already been filed, the competent Court will hear the case until the judgment becomes final (art. 137.1 TRLC).

[57] STS No 201/2017; and STS No 345/12.

[58] In the field of trademarks in the European Union, see SAP, Alicante, Spain (European Union Trademark Court), No 201/2017, ECLI:ES:APA:2017:800 (2nd para); SAP in Alicante, Spain, No 345/2012 23, ECLI:ECLI:ES:APA:2012:2198 (2nd para) and STJMerc, Alicante, Spain, No 118/2014 ECLI:ECLI:ES:JMA:2014:103 (3rd para, point 6). In the context of insolvency proceedings, see SAP, Zaragoza, Spain, No 227/2018 (n. 35) in relation to breach of contract invoked against the licensee whose exploitation activities exceed the authorised limits set out in the agreement.

[59] Cf. Massaguer (2018), III.1.

[60] As acknowledged in STS No 263/2017, ECLI:ES:TS:2017:1653 (6th para, point 3).

claim against the estate itself.[61] It should also be noted that, in the case that compensation for infringement exceeds the actual damages sustained as a result of the specific calculation method used, excess might be construed as having a punitive and not merely a compensatory nature. As a consequence, and according to recent case law adopted in relation to insolvency procedures, the claim referring to said excess would be treated as a subordinated claim so as not to result in detriment to the creditors of the party declared insolvent. Additionally, the fact that termination of the agreement needs to be determined by court order as a result of the control that the Court exerts over the agreements entered into by the debtor[62] provides additional grounds for perceiving more advantages in requesting the termination of the agreement. In this regard, the latter will enable the *in bonis* licensor to dissociate itself from the contract and, at the same time, to be entitled to compensation for the damages suffered. As has already been explained above, the amount to be received cannot be higher than the compensation that would be obtained if proceedings for IPR infringement had been brought.

IV. Conclusion of the insolvency proceedings and transfer of the licensing agreement to a third party

The balance which is to be struck between the protection of the *in bonis* party and the interest of the insolvency proceedings is conditioned not only by the rules governing the performance of contracts within the particular context of insolvency proceedings but also by the specific provisions regulating the potential outcomes thereof. Eventual conflict between these factors will be determined to a great extent by the exit for the insolvency proceedings that is ultimately preferred. As will be explained below, the potential for conflict will be especially visible in certain scenarios in which conclusion of the insolvency proceedings involves the transfer of the licensing agreement to a third party.

1. Individual transfer of the licensing agreement

If the insolvency proceedings are concluded through an arrangement with creditors which requires the approval of an insolvency plan establishing how outstanding obligations of the debtor are to be fulfilled, the licensing contracts that are continued will be amended in accordance with the content of the arrangement (art. 396 TRLC). By contrast, if the liquidation phase has been opened and the winding-up plan to be implemented involves

[61] Martínez Flórez, 2008 (n. 11) 91 supports this approach on the grounds that, in this case, the pending obligations which are due to the creditor and on which termination is based arise after the opening of the insolvency proceedings.

[62] Art. 162 TRLC. For a comprehensive approach to the problems of legal certainty related to out-of-court settlement of licensing agreements in order to determine the effects of termination and, in consequence, whether the licensee's operations are still covered by the consent emanating from the contract, see STJMerc, Alicante, Spain, No 118/2014 (n. 59). Even in cases in which the existence of a licence as such cannot be acknowledged, withdrawal by the IPR proprietor of the consent by which it allowed a third party to use these rights cannot prevent the IPR owner from bringing proceedings for infringement in the event that this party continues the unauthorised use of the IPR [JCJ Case C-661/11, *Martin y Paz Diffusion SA v David Depuydt*, (2013) ECLI:EU:C:2013:577 (paras 58-62)].

the sale of individual assets or rights which form the insolvency estate[63], the decision to be adopted in relation to the licensing agreement will not only depend on the interest of the insolvency proceedings but also, and unavoidably, on the consent of the *in bonis* party.

In this regard, in the event that the licensor is declared insolvent, the interest of the insolvency proceedings may have led to the decision to terminate the licensing agreement in order to enable the IPR to be sold free from third-party rights. In such a case, the licensee will have had to accept such termination without prejudice to the compensation to which this licensee might be entitled (art. 165.3 TRLC). However, if a decision is made in favour of the continuance of the contract, the transfer of the IPR will only imply that of the licensing agreement if the licensee agrees to such transfer in accordance with applicable regulations of Spanish Civil Law (art. 1205 CC).

In the event that it is the licensee who is declared insolvent, and even if the agreement has been continued after the opening of the insolvency proceedings, transfer of the licensing agreement will be subject to the applicable specific regulations, thus requiring express acceptance by the *in bonis* licensor.[64]

2. Transfer of the licensing agreement as part of a production unit

A completely different scenario is faced if the insolvency proceedings are concluded through the sale of one or more production units assembled from the assets forming the insolvency estate. Indeed, the priority given in Spanish insolvency regulations to ensuring the continuation of the debtor's business has led to a regulatory approach, favoured by a number of recent reforms, which strongly encourages the transfer of one or several production units from the insolvent estate to third parties.[65] A 'production unit' is to be understood as an organised grouping of resources which enable an economic activity, either central or ancillary, to be carried out (art. 200.2 TRLC). The transfer of production units may take place during any of the phases of the insolvency proceedings.[66] If this occurs during the winding-up phase, such a transfer shall be considered the preferred means for concluding the insolvency proceedings.[67]

For the purposes of this article, it is important to highlight that a number of measures have been adopted in order to strengthen the effectiveness of this instrument which fosters the

[63] Art. 422.1 TRLC.
[64] Arts. 83.3 LP and 46.3 LM.
[65] Especially Act 9/2015, of 25 May, on urgent insolvency measures, which complemented existing regulation in relation to the transfer of production units of the party declared insolvent.
[66] For a general and, at the same time, comprehensive view of this transaction, with special attention paid to the required automatic transfer of the agreements on which the running of the production unit depends, see Pedro Rubio Vicente, 'La problemática de la enajenación de la empresa en la fase de liquidación concursal' Revista de Derecho Mercantil (Thomson Reuters ProView, No. 292, 2014) and Pedro Conde Tejón, 'La transmisión de la empresa o de alguna de sus unidades económicas como prevención o solución a situaciones de crisis empresarial', Revista de Derecho Mercantil (Thomson Reuters ProView No. 294, 2014).
[67] Cf. arts. 205, 324 and 419.2 TRLC.

continuation of the distressed business. Among these measures, a specific provision has been established in relation to the contractual relationships that are integrated into the production unit that is to be transferred. In this sense, as specified in art. 222.1 TRLC, *the acquirer shall be bound by subrogation to the contracts serving the purpose of the continuity of the professional or business activity carried out in the production unit or units that is transferred, without the need for consent by the other party*.

Therefore, licensing contracts related to trademarks, patents or other IRPs which are included within the boundaries of a production unit which is to be transferred in the course of insolvency proceedings are subject to an assignment *ex lege* which does not require the approval of the *in bonis* party. Subrogation takes place as an exception to that general rule regulating the transfer of agreements which establishes consent from the assigned party as a requirement. Nor is it hindered by the traditional qualification of licensing contracts as *intuitu personae* agreements[68], a view which is enshrined in legislation on patents and trademarks which prohibits the transfer of the licence without the consent of the licensor.[69] The sole exception provided for is that the acquirer has specifically declared its intention not to subrogate itself (art. 223 TRLC).[70]

Subrogation by the buyer of the productive unit to the licensing agreement implies that the buyer assumes the contractual position of the debtor formally declared insolvent. In any event, it is to be highlighted that subrogation is not complete, as it does not imply the assumption of debts linked to the existing agreement. Indeed, the sale of the production unit does not involve the obligation to pay outstanding liabilities incurred by the debtor formally declared insolvent prior to the transfer, unless (1) the purchaser has expressly undertaken that obligation; (2) there is a legal provision to the contrary or (3) these

[68] Cf. Conde Tejón, op. cit., II. 3; Pedro Rubio Vicente, 'Enajenación de unidad productiva en concurso y cesión de contratos de seguro', Revista de Derecho concursal y paraconcursal (La Ley, no. 27, 2017) 4; Fernando Cerdá Albero, 'La liquidación', in *Regularización, aclaración y armonización de la legislación concursal* (n. 12), IV, 22. D, d; Manuel García Villarubia, 'La cesión forzosa de contratos en caso de transmisión de unidades productivas en el concurso', El Derecho. Revista de Derecho Mercantil (Lefévre, No. 25, 2014) https://www.elderecho.com (accessed 9 July 2020). The effects of transfer without the consent of the assigned party may affect the co-owner of the IPR as well, who is hindered from exercising its pre-emptive right to acquire the debtor's share. In relation to a case along this line, see the order issued by the Provincial Court, Guipúzcoa, Spain, No 126/2018, ECLI:ES:APSS:2018:1200A (3rd para). In the interest of the insolvency proceedings and for the successful completion of the sale of the production unit, the Court prevented one of the co-owners of a trademark from exercising its pre-emptive right to acquire the other 50% owned by the debtor who had been declared insolvent.

[69] Arts. 83.3 LP and 46.3 LM

[70] TRLC has suppressed a reference present in the previous regulatory framework that made it possible to exclude subrogation to contracts 'whose termination had not been requested'. The uncertain implications of this condition had raised doubts among legal scholarship. Its deletion in the legal text currently in force has also meant the elimination of the only possibility available for the *in bonis* party to avoid subrogation.

liabilities represent labour claims or claims for Social Security contributions (art. 224.1 TRLC).[71]

It must be acknowledged that transfer of those agreements that are essential for the operation of the production unit might be indispensable for meeting the higher goal of safeguarding the preservation of the business that underlies this type of transactions. In this regard, when the party formally declared insolvent is the licensee, if the option taken to conclude proceedings is the sale of a production unit, it can be expected that, in most cases, this will imply the preservation of any existing licensing agreements. However, it also needs to be highlighted that, in this particular respect, prevailing insolvency law imposes an important, and perhaps excessive, sacrifice onto the *in bonis* licensor with the aim of the successful completion of the insolvency proceedings. In this regard, the licensor is, without the need for prior consent, bound with a new contracting party from whom the licensor cannot demand guarantees as to its potential ability to fulfil the contract.[72] At the same time, the licensor needs to continue playing its role as a creditor in the development of the insolvency proceedings that involve the insolvent licensee if that licensor aspires to recover the claims that were generated before the transfer of the agreement. In this regard, even though the licensing agreement will continue to be performed independently of the insolvency proceedings, the licensor's demands on the acquirer for contract fulfilment will only be enforceable in relation to the time period subsequent to the transfer. Such demands will not extend to encompass any breaches incurred prior to that date, which will be dealt with according to insolvency regulations.

V. Concluding remarks

The effects of the insolvency order on the licence agreement primarily affect the debtor's counterparty (also called the *in bonis* party), whose particular interest is relegated for the

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[71] TRLC does not clarify whether payment of claims arising after the transfer of the production unit is to be made by the acquirer even if these claims stem from activities carried out by the debtor who has been declared insolvent before said transfer. In relation to this matter, see the decision by the Spanish National Commission of Markets and Competition (CNMC), dated 1 October 2019 (S/DC/0612/17 *Montaje y mantenimiento industrial*). In this decision, based on the application of art. 146 *bis* LC (currently art. 224 TRLC), the acquirer of a production unit sold during the winding-up phase of insolvency proceedings was exempted from paying a fine for infringement of antitrust legislation in a case in which disciplinary proceedings had been commenced before the relevant antitrust authority, based on activities attributable to the transferor, after the transfer of the company took place. This decision raises serious doubts about its consistency with recent ECJ rulings related to the transfer of an undertaking in terms of corporate liability deriving from sanctions imposed according to antitrust regulations. See the critical comment by Francisco Marcos, 'Defensa de la competencia y perdón concursal' (21 de noviembre 2019, Blog Almacén de Derecho, https://almacendederecho.org/, accessed 15 July 2020).

[72] See the analysis by Ángel Carrasco, 'Subrogation in contracts tied to the sale of production units under insolvency proceedings,' Análisis GA&P, October, 2014, 1 ff. (https://www.ga-p.com/publicaciones, accessed 12 July 2020) and his proposals to temper the consequences of automatic transfer by applying the Spanish rules of obligations and contracts.

sake of the higher interest of the insolvency proceedings. Once the procedure is formally opened, the debtor's counterparty remains bound by the contract and is obliged to perform it, but may also be compelled to accept an early termination of the contract in the interest of the proceedings or even to comply with a court order ruling that the contract be fulfilled – even in cases where the debtor had previously breached the contract.

The treatment of the amounts that are due to the *in bonis* party in this type of situation (including, as has been explained throughout these pages, compensation for termination ordered in the interest of the insolvency proceedings or those obligations arising as a result of a court order ruling specific performance of the contract) as claims against the insolvency estate itself is intended to compensate for the sacrifices imposed on said party under these insolvency regulations. Nevertheless, despite being a correct and necessary mechanism, the scope of these provisions is merely formal in nature and does not in itself guarantee the effective legal protection of the *in bonis* party. In this regard, it must be taken into account that, even though priority is given to the recovery of claims against the insolvency estate itself over other types of claim, this estate will already be depleted due to debts and sought after by a multitude of creditors, some of them debtors themselves facing claims of a similar nature.

Recent reforms of insolvency regulations in Spain promote options for concluding insolvency proceedings which favour the continuation of the economic activity of the debtor. The nature and function of licence agreements involving a specific IPR explain why these reforms have a direct impact on this type of contract. This is particularly the case when it is the licensee who has been formally declared insolvent, as preserving the licence agreement after the opening of the insolvency proceedings is often a necessary measure in order to ultimately guarantee that the debtor's business continues operating.

According to these new provisions, in the event that a licence agreement entered into by the debtor is integrated into a production unit, the agreement might be transferred to a third party without the need for consent by the *in bonis* party. In such a situation, the *in bonis* party (often the licensor, as has previously been explained) is compelled to accept a modification of the contract which may involve sacrificing its particular interest in a manner which could be deemed excessive. In such a case, the *in bonis* party is not compensated for with the possibility of holding the new contractual party liable for the contractual debts which arose prior to the transfer of the agreement – debts which will have to be settled within the framework of the insolvency proceedings.

Given the mandatory nature of insolvency regulations, it must be assumed that the *in bonis* party cannot avoid the consequences for the licence agreement which are brought about by the opening of the insolvency proceedings. With this in mind, it is highly advisable to introduce clear, concrete clauses in any licence agreement in order to specify which would be the obligations of each of the parties, their specific scope, and even an ex-ante estimation of the amount to be paid as compensation in the event of non-compliance of the contract. This foresight may also bring with it additional advantages during the actual course of the proceedings. In fact, a pre-existing, precise delineation of the obligations of each of the parties will serve to clarify the specific terms and conditions according to which the contract is to be performed by the party that is formally declared insolvent (or, if this is the case, by the third party onto which the agreement is transferred), and this in turn will both facilitate the application of prevailing insolvency regulations as well as provide valuable guidelines to the competent bodies in charge of the insolvency proceedings in order to adopt the best decision concerning whether to preserve or to terminate the licence agreement once these insolvency proceedings have been opened.