

Licensees slightly better off in bankruptcy of Dutch licensor—but not out of the woods

The Dutch Supreme Court on 11 July 2014 handed down a [decision](#) that improves the position of licensees in case of bankruptcy of a Dutch licensor, and of other parties deriving a right of use from a Dutch counterparty that goes bankrupt. The Court reconsidered, or at least qualified, its decision in *Nebula*. Unfortunately, despite this new ruling, licensees will still have to take steps to protect themselves against a bankruptcy of their Dutch licensor, such as putting the relevant IP rights into a bankruptcy remote special purpose vehicle or setting up a usufruct structure.

After *Nebula*, licence agreements with a Dutch licensor were considered not bankruptcy-proof. Under Dutch bankruptcy law, the bankruptcy trustee has the possibility to breach agreements. According to *Nebula*, this also applied to agreements where the debtor (licensor) only has the obligation to tolerate the use of an asset (IP right). In that event the user (licensee) could not continue to use the asset.

In its 11 July 2014 ruling, the Court ruled that the bankruptcy trustee's right to default only concerns obligations that would have to be met by the estate by performing at its expense, such as making a payment, surrendering an object, or creating a right. When the bankruptcy trustee does not deem the fulfilment of such obligations to be in the interest of the estate, he may 'passively' default by not performing. The resulting claim (for damages) can be submitted to the estate to share pro rate in distributions, if any.

However, the Court held in this new decision, where performance consists of tolerating use, the bankruptcy trustee is *not* entitled to any right or action that is not granted by law or agreement. The bankruptcy trustee therefore cannot – unless the relevant agreement or law grants him that right – 'actively' default, e.g. by reclaiming an asset the debtor's counterparty is using or otherwise preventing that counterparty's use of that asset.

For licence agreements, this means that a Dutch bankruptcy trustee will no longer be able to act against a licensee to terminate the licensee's right of use, unless the relevant agreement grants him that right. Licensees are still not out of the woods though. The bankruptcy trustee will still be able to, in the course of the liquidation of the estate, sell the underlying IP rights 'free and clear'. By doing so, the bankruptcy trustee will normally default under certain provisions of the licence agreement to protect the rights of the licensee (e.g., obligations to, on a sale, also transfer the licence), but as follows from the above, this form of *passive* non-performance is as a general rule still allowed. This enables the bankruptcy trustee to maximise the value of the estate, which

is his key task and obligation to the joint creditors.

The outcome may be different for registered licences with respect to registered IP rights (e.g., patent rights and trademark rights, as opposed to copyright). After *Nebula*, there has been ample debate in legal doctrine whether the registration of these licences, which gives them statutory third-party effect, would permit the licensee to still invoke its rights vis-à-vis the new owner of the IP rights after their sale by the bankruptcy trustee. Given the bankruptcy trustee's option to breach the licence pre-sale so that the licensee could not continue to use it, this argument gained little traction.

However, the Court's 11 July 2014 ruling is likely to reinvigorate this debate, as the bankruptcy trustee is now stripped of that option.

Hence, all licensees are now at least slightly better off, but far from safe; licensees with respect to registered IP rights have grounds for new hope, but uncertainty remains until there is case law explicitly dealing with their position. Licensees who have a material, continuing licence are therefore still best advised to implement special protections, such as putting the relevant IP rights into a bankruptcy remote special purpose vehicle or setting up a usufruct structure. Without those protections, they continue to risk losing their rights in case of a bankruptcy of their Dutch licensor.