CHAPTER 10

*In Rem* Effects of Non-exclusive Sub-licences in Insolvency

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1 "Insolvency-Proof" Non-exclusive Licences: The Issue

The *in rem* effects of simple licences in the insolvency of the licensor have become a major issue of political controversy in Europe. Failed legislative reforms¹ and diverging legal solutions across Europe,² and cautiously evolving case law in those countries, stand in sharp contrast to the clear statutory provisions in the US and in Japan. 11 U.S.C. (US Bankruptcy Code) § 365 (n)³ gives the licensee the right to choose and uphold the contract in case that the trustee had chosen to cancel the contract. Art. 56 Japanese Bankruptcy Code⁴ exempts certain non-exclusive licence contracts from the trustee’s right to

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³ Sec. 365 (n) US-Bankruptcy Code reads: "(n) (1) If the trustee rejects an executory contract under which the debtor is a licensor of a right to intellectual property, the licensee under such contract may elect – (A) to treat such contract as terminated by such rejection [...] or (B) to retain its rights (including a right to enforce any exclusivity [...]), [...] as such rights existed immediately before the case commenced, for – (i) the duration of such contract; and (ii) any period for which such contract may be extended by the licensee as of right under applicable nonbankruptcy law. (2) If the licensee elects to retain its rights, as described in paragraph (1) (B) of this subsection, under such contract – (A) the trustee shall allow the licensee to exercise such rights; (B) the licensee shall make all royalty payments [...]. (3) [...], (4) [...]". This was introduced by the Intellectual Property Bankruptcy Protection Act, Public Law 100–506, 102 Stat. 2538 (1988).

⁴ Art. 56 of the Japanese Bankruptcy Code reads "Article 56(1) The provisions of Article 53(1) and (2) [the right to cancel non-fulfilled continuing obligations by the trustee – author’s note] shall not apply where the counter party of the bankrupt under a contract for the establishment of a leasehold or any other right of use or making profit has a registration or meets any other requirement for duly asserting such right against any third party. (2) In the case
cancel continuing contracts. Yet, the courts in Europe have started to acknowledge that in certain situations the need to protect the market from the effects of a single instance of bankruptcy may outweigh the immediate interests of creditors. However, the dogmatic structures differ considerably and more often camouflage rather than explain the balancing exercise of the underlying policy decision.

The Dutch Hoge Raad decided in its Nebula-Ruling\(^5\) in 2006, that a creditor may not simply execute his/her rights, and refined the reason recently in ABN Amro v Berzona (2014).\(^6\) Also, the German Supreme Court Bundesgerichtshof (BGH) took the perspective of the licensee and granted “insolvency-proof” status to sub-licenses in Reif en Progressiv\(^7\) and Take Five.\(^8\) The regional instance court in Munich,\(^9\) and recently the BGH,\(^10\) have decided that some sorts of cross-licences and licences granted for single payment are to be qualified as fulfilled, and are therefore no longer affected by the trustee’s right to cancel a non-fulfilled contract. Consequently, these licences can also be qualified as “insolvency-proof”.

While juxtapositions between IP law and insolvency law, of property and contract and the nature of the licence (sale or lease) and “privacy of contract” dominate the discussion, little progress has so far been made towards a transparent balance of opposing interests in insolvency which calibrates the protection of creditors, the interest in market clearance and robust undertakings, and the protection of third parties downstream. The following article pursues this goal and argues that a case-law-oriented solution, rather than a system-oriented one, is best able to hammer out preconditions so that a licensee is appropriately protected by an in rem effect of his license. A stratigraphy of different levels of licences opens up a market-oriented reflection of who might deserve insolvency protection, and who does not, and for which reasons and to what extent this protection should apply.

\(^{5}\) Hoge Raad, 3 Nov. 2006, RvDw 2006, 1033 – Nebula.
\(^{9}\) LG Munich 1, judgment of 21 August 2014; OLG Munich, judgment of 25 July 2013.
\(^{10}\) BGH, judgment of 21 October 2015 ECOSoil, NZ 2016, 97.
II Comparing Licenses under Dutch, US, Japanese and German Insolvency Rules

1 The Netherlands

In the Netherlands, the treatment of licences in insolvency is based on two Hoge Raad judgments which do not explicitly deal with licences, *Nebula* (2006)\(^{11}\) and *ABN/Berzona* (2014).\(^{12}\) Nebula owned a building including a business premises and two private flats on the upper floor. The “economic ownership” of the property was transferred to Donkelaar BV on 24 December 1997. “Economic ownership” under Dutch law means that the “economic owner” has a general right to use the property, but only based on a contract and not on a property right. The new “economic owner” is not formally registered and therefore is not the owner as seen by Dutch property law.

With approval of Nebula, Donkelaar transferred the economic ownership of this premise on to Walton BV on 27 December 1997. On 24 March 1999, Nebula went bankrupt. During insolvency, Walton rented the upper flats to a third party on 1 July 2000. When the trustees realized what had happened, they made a claim against Walton for the rental income since the date of insolvency and demanded the eviction of the tenants arguing that Walton did not hold a legal title to rent these flats with regard to the insolvency estate. The Hoge Raad decided that transfer of “economic ownership” is only a continuing obligation and this title grants no right to segregate the property in insolvency. Generally, continuing obligations are not influenced by bankruptcy, but the creditors cannot perform their rights as if there were no insolvency. This is not only the case when the creditor can claim actions from the insolvent party, but also when the insolvent party has to tolerate the use of his property. If the creditor could continue to use the property of the insolvent party, it would break the principle of equality of creditors. The trustee has a right to breach of contract (*recht op wanprestatie*), which in fact gives him/her the opportunity to choose if he/she wants to continue the contract or not. The prevailing view in Dutch law\(^{13}\) goes along with that of the Advocaat-General who made this decision, J.L.R.A. Huydecoper, that this judgment applies by analogy to licence contracts.

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\(^{11}\) Hoge Raad, judgment of 3 November 2006, BvdW 2006, 1093 – *Nebula*, *supra* n. 5.


Eight years later, the Hoge Raad distinguished *ABN/Berzona*\(^{14}\) from *Nebula*. The former case revolved around a creditor (\textit{ABN} Amro Bank) which had applied for the insolvency of its debtor (Berzona) because Berzona's tenants had claimed the use of the rented property. The Hoge Raad decided that such a claim cannot lead to insolvency. The fact that a continuing obligation is not influenced by bankruptcy in any case still does not stand in the way of the trustee's right to breach the contract. But this right is limited to the omission of active actions at the expense of the insolvency estate such as for example transferring property, giving rights or paying money. The trustee cannot actively prohibit the use of a right granted preliminary to bankruptcy; the trustee can only claim in order to stop the use of a rented property, if it was rented after the date of insolvency (as in *Nebula*). The Hoge Raad does not mention licences in this case either, but the principle can, again, be analogically transferred to licences:\(^{15}\) if a licence is granted by a licensor prior to his/her insolvency, the right to use the license does not stop, when the licensor goes bankrupt. The same is true for sub-licences granted before insolvency. However, sub-licences granted by the non-insolvent licensee after the date of insolvency of the main licensor can be stopped by the trustee.\(^{16}\)

Nonetheless, the licensee is not wholly protected. When a trustee sells the intellectual property right to a third party, the licence-holder only enjoys protection when the licence is registered. Vice versa: When a trustee sells the underlying IP in cases where the licence is not registered, the new owner of the IP can force the licensee to stop using the licence.\(^{17}\) Additionally, it is not possible to register every kind of licence: Protection of succession is recognized for patents (Art. 56 Sec. 2 S. 3 Rijkscontrolewet), trademarks (Art. 2.33 Benelux-verdrag inzake de intellectuele eigendom) and plant varieties (Art. 63 Section 3 Zaaizaad- en Plantgoedwet 2005), but not for copyright licences. Hence these licensees remain unprotected when the IP is sold to a third party. Moreover, the protection of licences can be restricted by contract. The licence automatically expirs in case of insolvency when the contract includes a clause to this effect (an ipso facto clause). These clauses can be void by violating good faith,

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\(^{14}\) *Supra* n. 6.


\(^{16}\) Ibid.

\(^{17}\) Th.C.J.A. van Engelen/J.P. Hustinx, "De licentienemer en de failliete IE-licentiegever", *Tijdschrift voor Insolventierecht (Tvl)* 2015, 62–66, p. 66.
when their underlying aim is to gain an advantage over other creditors in case of insolvency.\textsuperscript{18} But in cases where the clauses do not only relate to insolvency but also to a general lapse of consideration, such as non-performance within a certain period of time or termination of contract, there is a presumption of good faith.\textsuperscript{19} This makes it possible for parties to terminate licences automatically in cases of insolvency.

This development in Dutch law reflects the two opposing views on the topic: insolvency lawyers prefer the \textit{Nebula} judgment because of its emphasis on the equality of creditors,\textsuperscript{20} and IP lawyers prefer the \textit{ABN/Berzona} judgment because it brings to an end the ruinous economic effects on licensees of bankruptcy (especially on users of custom-built software).\textsuperscript{21} Although a licence as a right to use is not abstracted from the underlying contract, it can be distinguished from the licence contract. The rationale is that the licence as a simple right to use does not burden the insolvency estate, in contrast to the licence contract which includes duties such as that of upholding the underlying intellectual property rights, updating the software, etc. These duties of the licence contract can be cancelled by the trustee, but not the licence itself as a right to use.\textsuperscript{22} The outcome of \textit{ABN Amro/Berzona} is likely to grant a protected position to licensees by excluding them from the right to breach of contract of the trustee in insolvency. This position makes licences insolvency-proof to a certain extent.

The refinement of the Nebula doctrine by the Hoge Raad was understood as a response to the economic arguments of software-holders and IP lawyers who strived for more protection of the licensee. Economically the outcome of \textit{ABN/Berzona} was to stop the potential ruinous effect of the licensor's bankruptcy and gives an incentive to potential licensees to carefully draw up their contracts with licensors. Furthermore, its differentiation between registered and non-registered licences regarding succession protection is sensible and is adjusted to the Dutch concept of creditor protection. It provides for a transparent position for both third parties and the licensee.

\textsuperscript{18} Hoge Raad, judgment of 12 April 2013, \textit{Megapool/Laser}, NJ 2013, 224.
\textsuperscript{19} Ibid.
Germany
Compared to the Dutch situation, in Germany a sharp distinction has evolved between unprotected "mother licences" and protected "daughter and grand-daughter licences". Creditor-licensees of non-exclusive licences are not protected in insolvency in Germany. The right of the trustee to cancel a non-fulfilled bilateral contract in insolvency (§ 103 Insolvenzordnung [InsO]) remains untouched in case of licence agreements and can generally not be excluded or modified by contract (§ § 119 InsO). Since the reform of Germany Insolvency Law the exception of the trustee's right to cancel a non-fulfilled contract is now limited to rental agreements regarding immovable property (§ 108 InsO). As a matter of principle, there is no in rem effect of these licences and no statutory provision which protects them in case of the licensor's bankruptcy. The fate of the licence on the first level in bankruptcy is therefore determined by the trustee.

The BGH, however, decided in the cases of Reifen Progressiv25 and Take Five26 that the succession protection for patent and copyright licensees leads to a protection of any sub- or sub-sub-licence when the main licence contract is revoked, rescinded or cancelled. The termination of the main licence does not automatically lead to a termination of the sub-licence. Thus, this leads to succession protection (Bestandsschutz or "grandfathering") of the licence chain when the trustee of the licensor cancels the license contract with his/her licensee at an earlier stage. This protection of the sub-licensee also applies in cases where the sub-licensor goes bankrupt and rescinds the contract with the main licensor and upholds the contract with the sub-licensee. In this case the main licensor has a legal right against the sub-licensee to claim royalties.27

Following the recent decisions by the Regional Court of Munich28 and of the BGH,29 the character of the non-exclusive licence may further be substantiated. The judgments adjudicate cross-licences and an unrestricted and irrevocable licence ("freedom-to-operate" licence) with an obligation to pay

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28 LG Munich 1, judgment of 21 August 2014; OLG München, judgment of 25 July 2013.
29 BGH, judgment of 21 October 2015, NZI 2016, 97 – ECOSoil.
all royalties at once, thereby qualifying as "fulfilled obligation" in the sense of insolvency law (§ 103 InsO). According to the BGH these licences are rights which can be transferred at once and are not long-term relations of the licence contract. This renders these specific licences insolvency-proof.\(^{30}\)

It is possible that we will now see a new contract language develop in order to protect the licensee against the insolvency of the licensor. While it avoids the option of the trustee to cancel the contract, the principle of freedom of contract is strengthened.\(^{31}\) Parties will choose which risks they are ready to take in turn for higher (or lower) royalties. Companies which depend on a stable right to use will opt for security and accept high royalties up front. Others might risk to losing the license in turn for lower royalties and periodic payments. Possible moral hazards downstream have to be scrutinized in the future. All in all, these developments are having a positive effect on the economic market.

3  USA

Compared to Germany, the situation in the USA seems to be the reverse: licences at the first stage are protected explicitly by statute whereas sub-licences are not protected.

In the US, licensees were not protected in bankruptcy until 1988, promoted by the Lubrizol decision in 1985.\(^{32}\) Facing the disastrous effects of licensors' bankruptcy on licensees, the US Senate decided to protect the licensee in such cases.\(^{33}\) The trustee still has a right to elect whether he/she wants to continue the licence contract or not according to Section 11 U.S.C. § 365 (a). If the trustee chooses to cancel the licence contract, the licensee has the right to choose whether he/she wants to accept this decision and claim damages from the bankruptcy estate or whether he/she wants to carry on using the licence. In the second case he/she keeps the right to make use of the licence but cannot claim further affirmative duties, except the licensors' duty to make available the technologies necessary to use that licence, and has to pay the full sum of royalties. Only trademark licences are not protected by 11 U.S.C. § 365 (n). This

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32 U.S. Court of Appeals, Fourth Circuit, judgment of 15 March 1985, 759 F.2d, 1043 – Lubrizol Enterprises, Inc. V. Richmond Metal Finishers, Inc.

provision only applies to intellectual property as defined in 11 U.S.C. § 101 (35a) as for example patents (sub B), know-how (sub A) or copyrights (sub E).

In cases where the sub-licensor goes bankrupt, a sub-licensee seems not to be protected by 11 U.S.C. § 365 (n). There has been no court decision as yet, but generally such a situation would be governed by the legal relationship between the main licensor and the sub-licensee, because the licence falls back to the licensor and is not part of the insolvency estate of the bankrupt licensee. Therefore, this relationship is not governed by insolvency rules and 11 U.S.C. § 365 (n) is not applicable. Hence, also license chains consisting of several “daughter” and “granddaughter” rights are not protected when the main licensor goes bankrupt and the main-licensee chooses not to use its right to uphold the license.

The outcome is comparable to the current situation in the Netherlands – except for sub-licences. But the US protection is also statutory and explicitly states an exception of the equality of creditors for licensees. The aim of the statute providing protection for the licensee is to foster the dynamic market while compensating the insolvency estate with the full royalty sum and the possibility of terminating affirmative duties. Furthermore, the option for the licensee to hold up the licence contract in case of insolvency of the licensor extends the notion of privacy of contract in the event of bankruptcy.

4 Japan
Next to the US, Japan is the only high-technology state which recognizes a clear statutory provision protecting licences in the event of bankruptcy of the licensor. There is no separate provision for licences, but they are treated in the same way as rental agreements, and not as they are treated in Germany.

The Japanese Bankruptcy Code provides in art. 56 Sec. 1 that the trustee’s right to cancel or continue non-fulfilled bilateral obligations in bankruptcy (art. 53 Japanese Bankruptcy Code) does not apply “where the counter party of the bankrupt under a contract for the establishment of a leasehold or

35 U.S. Senate Report (1988, supra n. 34), pp. 3302 et seq.
any other right of use and profit has a registration of the right or any other requirement for duly asserting the right against third parties”.

Art. 99 Japanese Patent Law\(^{38}\) grants a succession protection for patent licences. This is also applicable for trademark licences (Art. 31 sec. 4 Japanese Trademark Law\(^{39}\)). In Japanese law this is a requirement duly asserting a right against third parties. Hence, further registration of these licences is not needed. Copyright licences have no third-party effect by statute and cannot be registered. Only for publication rights exists a system of registration.\(^{40}\) Therefore non-exclusive patent and trademark licences and registered publication licences have an in rem effect protecting the licensee and also the sub-licensee in insolvency.

Japanese law ties the insolvency-proof effect to other third-party effects of contractual rights as registration or succession protection. The Japanese solution is also a reaction to possible ruinous effects on the economy when licensees remain unprotected in bankruptcy.\(^{41}\) Furthermore, the differentiation between registered and non-registered licences regarding succession protection is sensible. As in the Netherlands it provides for a transparent position for both third parties and the licensee.

### III Comparing “insolvency proof” and “proprietary in rem effect”

The institution of “insolvency proof” covers a set of various situations in case of insolvency. For creditors, the term means that his/her securities will not fall into the insolvency estate. The prime example is “property”. Property of third parties may not be sold as an asset of the insolvent. Thus, property could be safely transferred as security for a granted credit. For contractors, the term means that none of the contract partners may change the contract unilaterally,

\(^{38}\) Art. 99 sec. 1 Japanese Patent Law reads “A non-exclusive licence shall have effect on any person who acquires the patent after generation of the non-exclusive licence”.

\(^{39}\) Art. 31 sec. 4 Japanese Trademark Law reads “(4) Articles 73(1) (co-ownership), 94(2) (establishment of pledge), 97(3) (waiver), and 99(1) and 99(3) (effects of registration) of the Patent Act shall apply mutatis mutandis to a non-exclusive right to use”.


or that the trustee may not sell personal items the insolvent needs for personal subsistence.

Beyond these various categories, neither the rationale nor the dogmatic structure of "insolvency proof" is actually clear.\textsuperscript{42} Does "insolvency proof" simply provide a bilateral right of defence against the trustee only or is the right of defence an \textit{in rem} effect which is in the situation of insolvency only actionable against the trustee? What exactly happens to a claim or a right when the insolvent declares bankruptcy and claims are announced on the creditors list? The \textit{in rem} effect is certainly no fully fledged subjective right. The licensee of a non-exclusive licence will not become entitled to defend that licence against any other third party. However, because under Japanese law the licence has an effect on a third party, it grants the licensee a protective right against the trustee when the licence is registered or provides for succession protection by statute. Under US law, the right is fixed to the contractual licence and creates a right of the licensee against the trustee by statute, giving him/her preference over other creditors. Dutch law strikes a balance; a right to use cannot be denied in bankruptcy by the trustee because of the remaining licence contract and once the licence is registered, the licence grants the licensee defensive rights protecting him/her against the novel owner of the underlying IP right after the trustee has sold the IP. In Germany, sub-licensees enjoy succession protection when a licensor at a higher stage in the licence chain goes bankrupt, whereas direct licensees are not protected. But they can gain protection when one party wholly fulfills the licence contracts before insolvency, for example by paying the whole royalty sum or granting an irrevocable licence without further affirmative duties.

This description of the metamorphoses of rights and claims in specific situations (either by regulation or by dogmatics), imposes a parallel reflection about precedents in English and German law. English law has since long acknowledged the \textit{in rem} effects of contractual obligations. The most famous cases are restrictive covenants, dating back to \textit{Tulk v. Moxey},\textsuperscript{43} 1848. In the Netherlands "economic ownership" (\textit{economisch eigendom}) gives the


economic owner a contractual right to use land or a building which comes into effect once the parties have agreed a transfer of economic ownership. There is no formal registration and it is not recognized as a property right. Thus, in general it only forms a right against the legal owner. But it still has a negative third-party effect on the trustee in cases of insolvency, similar to that experienced by licence-holders.

Though dogmatically rejecting the notion of in rem effects of obligational rights, German law has supported, as mentioned above, several examples with the same effect. Licence contracts, in particular, raise intricate problems. Depending on which feature of distinction is valued more highly (incidental performance-long term obligations, and the qualification of the object of the contract-partial transfer of the right or the provision of a use right), the qualification changes. For German law, the famous “Anwartschaftsrecht” and the rights of the tenant when a house is sold have to be taken into account. The “Anwartschaftsrecht” in German dogmatics is the equivalent to the security right of the retention of title (§ 449 BGB) and the uncoded non-possessor pledge (German: Sicherungsübereignung). It is conceived, similar to a licence, as a hybrid between property and contract rights. The difference is the following: In the case of the “Anwartschaftsrecht” its hybrid character crystallizes in the moment when either a sequestration or bankruptcy is declared. In sequestration, the right is transformed into a property right, in bankruptcy the right transforms into a privileged contractual claim. The hybrid nature of licences becomes apparent by the autonomous decisions of the parties. An exclusive licence is conceived of as a licence of a proprietary nature, a non-exclusive licence as a pure contractual one. The major discussions on the nature of “the” licence revolve around which contract rules are to be applied as default rules, sale or lease. The focus has been on contractual performance. Until Reifen Progressiv, the fate of licences in insolvency was determined according to their prior qualification as either exclusive (being of property nature) or non-exclusive

45 Hoge Raad (2014, supra n. 6). Cp. the Dutch situation according licences in insolvency under 2. (a) in this article.
46 F. Rieländer (2014, supra n. 43), p. 16.
47 The buyer under retention of title can claim performance of the contract – payment of the full sum for transfer of property – even when the contract would normally fall under the power of the trustee to cancel the contract (§ 107 Sec. 1 InsO); the creditor of a non-possessor pledge cannot claim restitution based on his/her property title, but can only privileged payment from the estate (BGH, judgement of 28 June 1978, NJW 1978, 1859, today codified by §§ 51, 50 InsO).
(then being contractual). In both situations, the focus is on the nature of the right or claim at the very moment the insolvency is declared. The insolvency process is conceived of as “freezing”. Neither the insolvent nor the claimant can change any claim or right. Only the trustee is entitled to act. However, the possibility that the process as such might instigate a metamorphosis of the legal items in the estate is out of the picture.

The second parallel refers to statutory contractual concepts with extended rights to third parties. The most famous of these is the old rule of “sale does not break contract” (Koop breekt geen huur). At the moment of sale, the renter is granted a right against any person who acquires the asset. German law chose the contractual narrative, arguing that the novel owner “steps into the contract”, § 566 BGB. In other word, the contract “shifts” to the novel owner. With regard to the contractual position, the old owner is substituted by the new owner by law. The contractual narrative is also followed by § 883 BGB (registered reservation of a title to land). They grant, in a specific situation, a bilateral claim against a specific third party. The third person remains unspecified as “the potential future buyer”, who becomes concrete once the contract is effectuated. The German Civil Code thereby left the ideal of the deep divide between property and contract intact. As a consequence, property as a subjective, absolute right against the world remained unchallenged. However, one could equally convincingly argue that the contractual partner is granted a direct right against the world. This inverse narrative has as its consequence a fragmentation of “property rights”. In addition, against the clear divide of property and contract, this narrative assigns in rem effects to a contract holder for his/her defense. The rationale is that the licence contract is more than just a bilateral relation to the contract partner. This is undisputed for exclusive licences. But also for non-exclusive licences, the licensee is delivered a use right which goes beyond the obligation to provide the use right. For the lease, this addition was embodied in providing physical possession; for licences it is the right to use as an economic asset. If the right to use is coupled with a duty to use (and royalties are relational to the profit), this economic function becomes even more transparent. The contract provides an economic asset which has a different value from the contractual equivalent given to the contract partner.


50 Ibid., p. 99.
This fact has become acknowledged for network contracts and franchising. Non-exclusive software licences evidently become the very basis of operating businesses. This additional value is the topic of numerous academic works on the dogmatic nature of the licence (including the ongoing debate about the distinction between exclusive and non-exclusive licences), and its conception in insolvency. It is the isolated, additional value of the licence which helps to understand the specific conflicting interests which arise if a licensor goes bankrupt. The assignment of defensive “proprietary rights” (in rem rights) to a contract holder will not ruin dogmatics. On the contrary, it facilitates reflection about when a licensee deserves the power to defend the contract in bankruptcy situations.

Insolvency rules used to be confined to a balance between the clearance of inefficient, non-performing firms from the market and the interests of creditors. The ideal was the well-ordered, static market. Since economic theory has shifted the economic ideal from a static to a dynamic market model, various areas of laws have been redirected towards the novel model. Competition law started to scrutinize the effects of intellectual property rights more closely with the ECJ’s landmark decision Magill in 1995. Insolvency laws were reoriented away from creditor protection towards the possible restructuring of a firm. The background to this is the understanding that the salvage of a single firm may outweigh the detrimental effects on frustrated creditors. Equally, the recent developments in insolvency law which provide for a better protection of licensees are a response to this shift. Network effects on numerous downstream firms are potentially more harmful to the economy at large in the long term than unsatisfied claims of creditors of a single firm in the short term. This has become especially evident for bankrupt software houses holding various


downstream licences which have themselves been sublicensed. All the analysed jurisdictions aim at responding to this situation. It is not only a logical legal step to protect the licensee against the lapse of the licence in insolvency. It is also economically sensible, because it fosters the dynamic market by setting incentives for both contract parties: Licensor can claim higher prices, and the licensee does not lose all investment in the use of the licence and would not have to fear his/her own insolvency if the licence could not be substituted. It also leads to more productive efficiency. And in contrast to the other solutions discussed, the BGH’s differentiation between mother and daughter licences promotes due diligence in contracting licences. It gives an incentive to licensees to take the potential of insolvencies into consideration when designing the licence contract. It is especially important to find an arrangement for when the licence cannot be substituted. The price may reflect the arrangement. Moreover, these rules protect third parties with sub-licences, the market can still be cleared and reorganized, and the bankruptcy estate receives royalties from sub-licensees without having to provide all the affirmative duties in the contract to the direct contract partner.

III Modern Thinking: Broad Contractual Effects and Limited Property Effects omitted

Conclusion

As property law changes along with the economy, so too does our reflection about property. This contribution provides evidence that a style of reflection has already developed across jurisdictions which takes economic market structures on board and takes a far more subtle approach to concepts which were conceived as opposites. The classical separation of *in rem* and *in personam* rights has evolved into a set of distinctions between various groups and market stages, and a differentiation of their protective needs. Projected behavioural incentives can be translated into legal constructions such as granting *in rem* effects only for specific groups. The distinction between licences and sub-licences gives evidence of a legal construction which is based on fostering market dynamics and the efficiency of resource allocation. The advantage of the proposed concept is that the legal reflection sensibly cushions the economics rationale and opens legal constructions for an open debate about incentives, moral hazards, legitimacy and market effects. With this type of reflection, the property institution has the potential to transform itself from an undifferentiated stronghold of bourgeois freedom to a dynamic market institution which does not just facilitate the exercise of indiscriminate power, but secures the self-determination of all market subjects alike.