13 A Study of the Handling of Intellectual Property Licenses in International Insolvency Proceedings (*)

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A system of automatic perfection for non-exclusive licenses was introduced in Japan in the 2011 revision of the Patent Act. This system put in place greater protection for licensees in situations involving the assignment of patents or the insolvency of patent rights holders, thereby laying stable foundations for economic activities conducted on the basis of license agreements. It is hoped that this will also provide a firm footing for the accelerated development of open innovation. However, existing intellectual property legislation is based on the territorial principle. Accordingly, in cases with a foreign element – for example, situations in which a foreign patent is among the patents covered by the license, or in which one of the parties to the agreement is a foreign company – a question arises as to the ambit of the automatic perfection system. In other words, the protection offered by patent licenses is determined by such factors as the applicable law of the agreement, the patents covered by it, and the nationality of the parties, so the conclusion can differ according to the combination thereof. Based on this awareness of the issue, this study clarifies the forms and extent of protection offered by non-exclusive licenses, focusing on situations involving international insolvency, and examines the potential impact of this protection.

Ⅰ Introduction

The protection offered by patent licenses is determined by such factors as the applicable law of the agreement, the patents covered by it, and the nationality of the parties, so the conclusion can differ according to the combination thereof[1]. Based on this awareness of the issue, this study clarifies the forms and extent of protection offered by non-exclusive licenses, focusing on situations involving international insolvency, and examines the potential impact of this protection.

Chapter II sets out a simple patent license involving a foreign element as a model and identifies the legal approach to the issue. Chapter III provides an overview of existing international insolvency legislation and focuses on a number of systems for protecting domestic interests. Chapter IV examines how such protection systems function in relation to non-exclusive licenses. In addition, it applies the arguments up to this point to cross-licensing, which is a more complex form of agreement, and clarifies the universal side-effects that could arise from territorial protection of non-exclusive licenses. Finally, Chapter V sums up the policy implications identified through the foregoing review.

Ⅱ The Automatic Perfection System and the Foreign Element

1 The Premise of the Automatic Perfection System

Article 99 of the Patent Act stipulates that "After a non-exclusive license arises, it shall have effect on any person who subsequently acquires the corresponding patent right or exclusive license , or an exclusive license for the patent right." This is what is called the system of automatic perfection for non-exclusive licenses. What this system seeks to regulate is the issue of perfection between a licensee and a third party who has been assigned by the patent rights holder a patent for which a license has been granted. Before the 2011 revision, in this situation, it was necessary to register a non-exclusive license to ensure that it was effective against a third party.[2] As a result of this revision, a licensee is permitted to continue using a previously-granted patent license automatically, so to speak, without the need to register it. However, opinion is fiercely divided over the question of whether or not the effect of automatic perfection in this situation is that the license agreement itself is inherited by the third party. Consequently, the

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relationship of rights and obligations formed as a result of this system is unclear.

This system has been assembled on the basis of one major assumption. This is the fact that the issue of perfection is concluded entirely within Japan. In other words, this system is nothing more than a commitment to protect the licensee if all of the elements that compose the issue of perfection are located within Japan. Accordingly, the question of protection in cases with a foreign element is an unknown quantity.

2 Establishment of the Model

Accordingly, the following simple patent license case is set as the model, with a foreign element added to the patent, parties, and agreement. In the model, Company A of Country X and Japanese Company B have concluded a license agreement and have agreed that the law of Country X is the applicable law of the agreement. The patents covered by the license are A's patents in Country X and Japan, and B does business in Country X and Japan on the basis of the non-exclusive license for these patents. Protection of the non-exclusive license in Country X is achieved on the basis of registration, in the same way as the system previously employed in Japan. During this relationship, insolvency proceedings were instituted against A in Country X and a trustee was appointed. It is assumed that A's trustee has rescinded the agreement in question.

3 Governing Laws

The exercise of the right of rescission by the trustee from Country X will likely be expressed in a Japanese court in one of the following forms: (a) a demand by the trustee from Country X for an injunction against B; (b) a demand by B against the trustee from Country X for performance of the agreement or for compensation for damages for breach of contract; or (c) a demand by the trustee from Country X for execution of the final and binding judgment rendered in Country X. In this situation, the Japanese court would deal with these cases in accordance with a judgment framework that broadly consists of two stages.

The first stage is the judgment on procedure. At this stage, the court must judge whether or not the trustee from Country X has standing in this litigation. This feeds back into the question of whether or not the court should grant recognition of and assistance for the effectiveness of foreign insolvency proceedings in Japan. Consequently, the applicable law at this stage is the Act on Recognition of and Assistance for Foreign Insolvency Proceedings (hereinafter referred to as the "Foreign Insolvency Recognition and Assistance Act"). The trustee from Country X is only granted standing by being appointed as the "recognition trustee" via an order of recognition (Article 36 of the Foreign Insolvency Recognition and Assistance Act).

If recognition and assistance are granted in this way, the case proceeds to the second stage, which is a judgment on the substance. At this stage, a judgment is made concerning which country's law should form the basis for rescission by the trustee from Country X. This selection of applicable law is governed by private international law; more specifically, this stage is governed by the Act on General Rules for Application of Laws (hereinafter referred to as the "General Rules Act").

However, when it comes to insolvency, it is not always easy to draw a line between procedural matters and the substance of the matter. For example, if the nature of the debts held by creditors within Japan changes in accordance with the reorganization plan in the other country, or if those debts are discharged, how should the legal nature of this be regarded[3]? Does it constitute procedure or substance? Furthermore, if regarding this as procedure, is it recognition of and assistance for foreign proceedings, or merely enforcing recognition of a foreign judgment in accordance with Article 118 of the Code of Civil Procedure? Opinions on this point can differ. Thus, there are cases in which it is not possible to clearly separate procedure from substance based on the dualist approach. However, in many cases, this judgment framework can be expected to be valid.

Ⅲ International Insolvency and Domestic Interests

1 Effectiveness of Insolvency Proceedings

(1) Territorialism vs. universalism

There are two main approaches to the overseas effect of insolvency proceedings instituted in a particular country: territorialism and universalism. Under territorialism, the property within each country is dealt with in accordance with that country's domestic law. On the other hand, under universalism, all of the debtor's property scattered across the globe is

dealt with in a single procedure. In insolvency proceedings involving multinational corporations, these two approaches give rise to differences in terms of cost, distribution, predictability, and reorganization[4]. First of all, regarding cost, under territorialism, it is necessary to institute proceedings in each individual country in which the debtor's property is located, causing the cost to mushroom, whereas under universalism, only a single proceeding is instituted, so costs are curbed, comparatively speaking, enabling the money saved to be distributed to creditors. Next, regarding distribution, under territorialism, the amount of property within the country substantially affects the amount distributed to creditors, so it is difficult to achieve cross-border equity among creditors, but under universalism, creditors in the same situation can be treated equally, irrespective of nationality. Furthermore, with regard to predictability, under territorialism, it is easy for debtors to engage in forum shopping by transferring property, making it difficult for creditors to ascertain the location of property in advance and thereby reducing the efficiency of the distribution of funds. Moreover, this means that certain, more economically-powerful creditors are able to engage in strategic behavior to secure their own individual interests, at the expense of the interests of the creditors as a whole. In contrast, universalism increases predictability for creditors. Given the multiplication of these advantages and disadvantages, the reorganization of multinational corporations is difficult under territorialism, but easy under universalism. Thus, in theory, universalism is superior in every regard.

(2) Modified universalism in the UNCITRAL Model Law

From this, one might expect that international insolvency legislation has been developed on the basis of universalism, but this is not the case. Currently, an eclectic stance called modified universalism is employed in the resolution of cases. One of the projects driving this move is the UNCITRAL Model Law. This is formally known as the UNCITRAL Model Law on Cross-Border Insolvency (hereinafter known as "the Model Law")[5]. It was drafted by the United Nations Commission on International Trade Law (UNCITRAL) and was adopted in 1997.[6] To date, 20 countries, including Japan, have completed the upgrading of their domestic laws in accordance with the Model Law[7].

The Model Law permits a situation in which multiple proceedings may be ongoing simultaneously worldwide. As such, it actually emphasizes the regulation of traffic between proceedings. This regulation of traffic is achieved by dividing foreign proceedings into main proceedings and non-main proceedings, and differentiating between them in terms of the effect of recognition. Here, "foreign main proceeding" means "a foreign proceeding taking place in the State where the debtor has the center of its main interests" (Article 2 (b) of the Model Law), where the center of the debtor's main interests is presumed to be the debtor's registered office, in the case of a corporation (Article 16.3 of the Model Law). On the other hand, a "foreign non-main proceeding" means "a foreign proceeding, other than a foreign main proceeding, taking place in a State where the debtor has an establishment" (Article 2 (c) of the Model Law). A foreign proceeding recognized as the main proceeding automatically acquires the effect prescribed in the Model Law in the recognizing state, and other effects can be added at the discretion of the judge (Articles 20 and 21 of the Model Law). On the other hand, if a foreign proceeding is recognized as a non-main proceeding, all judgments on the effect of that foreign proceeding within the country are left to the discretion of the judge (Article 21 of the Model Law). Thus, the concept of "center of its main interests" is the key to the acquisition of universal effect by insolvency proceedings.

(3) Domestic interests and public policy

Efforts have thus been made to conquer territorialism in relation to the effect of insolvency proceedings. However, it is not the case that recognition of and assistance for foreign proceedings is haphazard under current legislation. Provisions concerning public policy protect domestic interests from the universal effect of foreign proceedings. Article 6 of the Model Law falls into this category, stipulating that "Nothing in this Law prevents the court from refusing to take an action governed by this Law if the action would be manifestly contrary to the public policy of this State." If, as a result of a review, an action is deemed to be a breach of public policy, recognition of and assistance for the foreign proceeding is not granted. However, even in this situation, it is possible to apply this provision flexibly, by such means as confining the scope of the refusal to only part of the proceeding[8].

2 Private International Law of Insolvency

(1) Law of the state of the opening of proceedings approach

First, there is the approach that also links the substance of the case to the country where proceedings were opened, emphasizing the integrity of substance with procedure. If proceedings are initiated in multiple countries, the substance is linked to the law of the state where the main proceeding was opened [9]. Consequently, the decision on the main proceeding and non-main proceedings in the first stage of the court's judgment framework determines the applicable law in the second stage, thereby determining the ultimate resolution.

This approach is attractive to trustees. It enables the trustee from Country X to use the law of Country X as the basis for dealing not only with property located in Country X, but also property located in Japan. This means that it saves time and money[10]. Moreover, employing a single policy to deal with property dispersed across various countries contributes to cross-border reorganization[11]. On the other hand, according to this theory, there is a risk that the rational predictions of creditors concerning applicable law will be confounded. That is, starting proceedings in the country where the debtor's head office is permanently located makes it possible to ensure predictability, but if, at the time of making the decision on applicable law, proceedings have only been started in the place where the debtor has a business establishment, the application of the law of the country where the business establishment is located is likely to come as a shock to the creditor, who would have expected the law of the country where the head office is located to be the applicable law when insolvency occurred.[12]

(2) The ordinarily applicable law approach

Second, there is the approach in which the law applicable under ordinary circumstances is held to remain applicable in the event of insolvency, emphasizing the continuity of the law regulating legal relationships. According to this approach, a security interest, for example, would be linked to the place where the subject property is situated, in accordance with Article 13 of the General Rules Act, which prescribes the law applicable to rights *in rem*.[13] As a result, if the property of the debtor is dispersed around the world, the laws of multiple states will be emerge as applicable laws, but in this situation, a notional insolvency trust should be established in each country whose laws are applicable[14]. Regarding the right of avoidance, which is peculiar to insolvency law, this approach focuses on the fact that its function approximates the creditor's right of rescission under ordinary circumstances[15]. The General Rules Act does not stipulate the law applicable to the creditor's right of rescission, but the concurrent application of the law applicable to credit and the law applicable to fraudulent acts is believed to be the majority approach[16].

This approach is attractive to creditors. More specifically, it can guarantee widespread predictability and the safety of transactions for creditors, who do not necessarily have the closest relationship to the country where proceedings were opened.[17] On the other hand, it imposes a substantial burden on the trustee. Under this approach, the applicable laws differ according to each legal relationship, so the trustee must refer to the laws of various countries[18]. As a result, dealing with insolvency takes a vast amount of time and money. Moreover, if one adheres to the prevailing view regarding the right of avoidance, agreement by the parties to a detrimental act would enable them to designate the law of a country with stringent requirements regarding avoidance as the applicable law[19]. It is probably because of this disadvantage that it is extremely difficult to reorganize multinational corporations.

(3) Domestic interests and exceptional connecting factors

Thus, there is a conflict between the law of the state of the opening of proceedings approach and the ordinarily applicable law approach in terms of which law should regulate the substance of the case when insolvency occurs. However, this is nothing more than a conflict in terms of their approach to principles. For example, COUNCIL REGULATION (EC) No 1346/2000 of 29 May 2000 on insolvency proceedings (hereinafter referred to as the "EU Regulation") contains provisions regarding the private international law of insolvency and stipulates that the law of the State of the opening of proceedings shall be regarded as the basic rule.[20] However, this legal policy is not uniformly applied to set-off, avoidance, rescission of a bilateral contract yet to be performed or other matters.[21] While these provisions are positioned as exceptions to the basic rule of applying the law of the state of the opening of proceedings, they can probably be both be interpreted as indicating that the law applicable at normal times should have

precedence when dealing with important matters of substance. Consequently, at the specific individual level, there remains scope for exceptional connecting factors in both approaches, so one can say that the differences between the two are relative.

So why has this policy of exceptional connecting factors been adopted? In the case of the law of the state of the opening of proceedings approach, the justifications for permitting the country in which the real estate is situated to be used as an exceptional connecting factor in a real estate lease contract are (1) the protection of lessees, and (2) the need for assistance in disposing of real estate[22]. Moreover, Article 10 of the EU Regulation, which allows the handling of employment contracts at the time of insolvency to be governed by the law applicable to employment contracts, would seem to have been drafted based on a policy judgment that this would protect workers. As such, it can be said that there is scope to accept exceptional connecting factors in the interpretation of the regulation, in cases in which there is a tangle of interests and there is accepted to be a need for powerful protection from a policy standpoint.

3 Domestic Proceedings

(1) Handling of multinational parent companies and subsidiaries

Companies that do business on a global scale do not necessarily have a single juridical personality. It would appear that many companies establish a local subsidiary for strategic reasons when doing business overseas, with this subsidiary then managing the company's business and property within that country. Domestic proceedings can first of all be used in the insolvency of such multinational corporate groups. Chapter IV of the Model Law prescribes the forms of cooperation between trustees. In reality, these can be achieved by such means as the conclusion of a protocol that coordinates the proceedings in the two countries in relation to the right of management and the disposal of assets, and the recognition thereof by a court[23].

However, in the case of multinational corporate groups, debtor-in-possession (DIP) proceedings are adopted both domestically and overseas, so even in cases in which the parent company's management takes the initiative in embarking upon integrated reorganization, it is acknowledged to be difficult to keep proceedings in step[24]. This is because the conflict of interests that arises between the parent company and subsidiary in international insolvency tends to be exacerbated because of such factors as differences in the precedence of security interests and the right of priority between legal systems, the lack of ex officio involvement by the same court, and the existence of activist creditors[25].

(2) Disposal of domestic business by a foreign trustee

Domestic proceedings can also be used by a foreign trustee to dispose of businesses of a certain scale belonging to debtors in Japan. If it is for this kind of purpose, it is theoretically amply possible to use recognition of and assistance for foreign proceedings as an alternative to domestic proceedings. However, with recognition and assistance, there is a risk that the handling of labor claims and security interests or the rescission of bilateral executory contracts under foreign proceedings could pose an impediment, so in practice, it is deemed necessary to undertake proceedings cautiously, while securing the agreement of these creditors[26]. In other words, if the scale of operation within Japan is above a certain level, the cost of domestic proceedings and the cost of recognition and assistance proceedings are reversed. In this situation, a foreign trustee would have an incentive to initiate domestic proceedings that would suit his/her purposes.

(3) The protection of domestic interests by domestic creditors

The third use of domestic proceedings is when they are instituted by creditors for the protection of domestic interests, in situations in which the foreign trustee has opted for recognition and assistance proceedings. Conventionally, domestic proceedings were expected to have the following three functions in this kind of situation: (1) serving as an alternative if there were no foreign proceedings that could be recognized; (2) to maintain priority if there were a risk that the privileged status that the domestic creditor was recognized to have in relation to the debtor's domestic property might not be upheld in the foreign proceedings; and (3) to provide relief that would assist in realizing the rights of creditors, where it would be unfair to require them to participate in foreign proceedings[27]. Function (2) is achieved through the application of *lex fori*. Moreover, function (3) can be achieved by using the cross-filing system to establish common

creditors in both proceedings, by having the foreign trustee file proofs of claims in the Japanese proceeding on behalf of the foreign creditors, and having the Japanese trustee file proofs of claims in the foreign proceeding on behalf of the Japanese creditors[28]. The fact that the presumption of the cause of insolvency comes into play in petitions for domestic proceedings supports the use of such proceedings by domestic creditors for this purpose[29].

However, it cannot be said that domestic proceedings always contribute to this purpose. This is because, in situations in which the opinion of the foreign trustee does not accord with the opinions of domestic creditors concerning the nature of the plan in Japan, the plan that has garnered majority support at a meeting of the creditors will ultimately be selected[30]. In this situation, if the foreign trustee is representing a majority of foreign creditors via the cross-filing system, the foreign trustee would take precedence in a vote[31]. As such, in order to ensure that domestic creditors have some degree of influence over the content of the plan, it is imperative to engage in negotiations having already established a coordinated stance[32]. If they cannot do so, they could end up wasting their money.

Ⅳ Universal Impacts Arising from Territorial Protection of Non-exclusive Licenses

1 The Function of Systems for the Protection of Domestic Interests in Relation to Non-exclusive Licenses

(1) Public policy

Proceedings in Country X that permit the rescission of the license agreement by the trustee are in direct conflict with legal policy in Article 99 of the Patent Act, which aims to protect licensees in this kind of situation. Furthermore, in the model, not only is a Japanese patent included in the scope of the license, but also the licensee is a Japanese company, so there is an extremely strong relationship to Japan. Consequently, there is ample possibility that the proceedings in Country X will be judged as partially conflicting with Japanese public policy.[33] In this situation, recognition and assistance concerning the part of the proceedings in Country X that permit the trustee to rescind the license agreement would be rejected, at least insofar as the Japanese patent was involved.

(2) Exceptional connecting factors

There are no express provisions in Japan's private international law concerning the law that should govern the effect of non-exclusive licenses in the event of insolvency. Accordingly, the law applicable to this is left open to interpretation. The selection of the applicable law begins with a decision on the legal nature (characterization) of the case in foreign private law. The possible characterizations are "patent", "agreement", and "insolvency".

Accordingly, let us first characterize it as a patent. A patent can be regarded as falling into the category of a "right requiring registration" in Article 13 of the General Rules Act. This article connects such rights to the place where the subject property of the right is situated. Patents, which are intangible entities, have no location in a physical sense. However, they can be notionally regarded as being situated in the place where they are registered. From this, one can reach the conclusion that Japanese law is applicable to the effect of non-exclusive licenses concerning Japanese patents.

Next, characterizing it as an agreement, under Article 7 of the General Rules Act, the law of the place chosen by the parties shall be applied. However, the autonomy of parties is only appropriate in the formation and effect of the agreement. In contrast, changes in rights *in rem*, such as the transfer of rights to property based on the agreement, are governed by the law of the place where the subject property of the right is situated, in accordance with Article 13 of the Act. Accordingly, in this situation too, Japanese law would be the applicable law in relation to the effect of the non-exclusive license for the Japanese patent.

Finally, let us characterize it as insolvency. In this case, under the ordinarily applicable law approach, it would appear that one would reach the identical conclusion, using the same route as when characterizing it as a patent or an agreement. On the other hand, if the law of the state of the opening of proceedings approach is adopted, it will have a connection to Country X. Accordingly, under the law of Country X, the trustee from Country X can rescind the license agreement. However, this kind of result is in direct conflict with legal policy in Article 99 of the Patent Act, which aims to protect licensees in this kind of situation. Furthermore, in the model, not only is a Japanese patent included in the scope of the license, but also the licensee is a Japanese company, so there is an extremely strong

relationship to Japan. If these points are taken into consideration, there is a strong possibility that the application of the law of Country X would be judged to be "against public policy" (Article 42 of the General Rules Act). In this situation, the application of foreign law to the effect of the non-exclusive license concerning the Japanese patent would be rejected in accordance with this article, and Japanese law would be applied instead. As well as public policy, Article 99 of the Patent Act can also be regarded as an absolute, mandatory provision, justifying a decision to reject the application of the law of Country X and uphold the application of Japanese law. Thinking about it in this way, the issue of non-exclusive licenses in the event of insolvency is subject to exceptional connection to Japan, as the forum, solely in cases involving a Japanese patent.

Thus, there are multiple conceivable characterizations for the handling of a non-exclusive license in the event of insolvency. However, all of these can lead to the partial application of Japanese law. In any event, a pattern emerges in which there can be multiple points from which to begin considering the issue, but they all lead to the same place. This pattern is based on the fact that the license covers a Japanese patent.

(3) Domestic proceedings

The creation of a parallel insolvency situation via the institution of domestic proceedings contributes to protecting the interests of domestic creditors, in the sense that the property of the debtor situated within Japan is dealt with on the basis of Japanese law. However, it is likely that the creditor in that situation was originally intended to be a monetary creditor. In contrast, the party with a monetary claim in the case of a simple patent license is insolvent Company A. Accordingly, initiating domestic proceedings will not directly lead to the protection of the non-exclusive license, so Licensee B will probably only fulfill the requirements to petition for domestic proceedings in a limited number of cases.

However, if it can be said that B has suffered a loss as a result of the rescission of the license agreement by A's trustee, there would seem to be no impediment to B's filing a claim for damages in domestic proceedings. In doing so, the key issue will be whether B can calculate the amount of compensation on the premise of automatic perfection. More specifically, if this is possible, B can expect a substantial sum in damages, but if not, starting domestic proceedings would end up being a waste of money[34].

However, it would appear that this point of contention can feed back into the issue of the applicable law. As described in IV-1-(2), in private international law, there is a strong possibility that Japanese law will be applied in relation to the effect of the non-exclusive license in the event of insolvency, but only in regard to the Japanese patent. As a result, the amount of compensation based on the premise of the automatic perfection of the non-exclusive license concerning the Japanese patent can be anticipated. Using this as a trump card in negotiations could open the way to a settlement with favorable terms, including the continuation of the patent license agreement[35].

2 Similarities between the Systems for the Protection of Domestic Interests

Thus, in the context of patent licenses, all three of these systems for the protection of domestic interests are closely linked to the territorial nature of the patent, enabling the licensee to be protected. To put it another way, the country in which the patent covered by the license is registered plays a decisively important role. In contrast, even if (a) the applicable law of the agreement, (b) the country in which insolvency proceedings were opened, or (c) the country in which the party is incorporated is closely linked to Japan (and its laws), it is difficult to use this fact on its own as grounds for the application of Japanese patent law. In other words, these elements are of only secondary importance. Consequently, the protection of licenses in international insolvency would appear to be an aggregation of multiple forms of protection of non-exclusive licenses, which can differ according to the country in which the patent concerned is registered.

As such, in this model, whereas the fate (in terms of the exercise of the right of rescission by the trustee of A) of the non-exclusive license concerning the patent in Country X will be determined by whether or not it was registered in Country X, the non-exclusive license concerning the Japanese patent will be protected by the automatic perfection system. As a result, B will at least be able to continue its business in Japan. This outcome will not change, even if the trustee assigns A's patent in Country X and Japanese patent to C. In addition, in this situation, it goes without saying that the assignee C will be able to

continue A's business in Country X and Japan.

3 Cross-licensing and Business Survival

Finally, let us apply the foregoing argument to a foreign cross-license. The following model shall form the basis for considering this matter. Corporation A of Country X and Japanese Corporation B have concluded a cross-licensing agreement and have agreed that the law of Country X is the applicable law of the agreement. The patents covered by the cross-license are A's patents in Country X and Japan, and B's patents in Country X and Japan; both A and B do business in Country X and Japan on the basis of their own patents and the non-exclusive license for each other's patents. During this relationship, insolvency proceedings were instituted against A in Country X and a trustee was appointed. A's trustee then assigned A's Country X patent and Japanese patent, which are covered by the agreement in question, to C.

Let us summarize the relationships of rights in that situation between patent assignee C and party to the agreement B. First, there is the scenario in which Country X uses a registration system. In this situation, whereas the question of whether or not B can perfect the non-exclusive license in relation to C's patent in Country X will be determined by whether or not it is registered in Country X, B can perfect the non-exclusive license in relation to C's Japanese patent. Accordingly, B will at least be able to continue its business in Japan. On the other hand, C has not been promised that it can use B's patent in Country X and Japanese patent. Consequently, C may not be able to do business in either Country X or Japan. Next, there is the scenario in which Country X uses an automatic perfection system and what kinds of rights and obligations will be created under this system is uncertain. In this situation, B can perfect the non-exclusive license in relation to both C's patent in Country X and C's Japanese patent. Accordingly, B will be able to continue its business in both countries. On the other hand, C has not been promised that it can use B's patent in Country X and Japanese patent. Consequently, C may not be able to do business in either Country X or Japan.

It is anticipated that this inconvenience for assignee C will be resolved by agreement between the three parties involved (A, B, and C). It has already been pointed out in discussions concerning cross-licensing without a foreign element that in this kind of situation, B (the survival of whose business is affirmed) has an advantage over C (whose succession to the business is not always affirmed) in negotiations[36]. C, which wants to purchase the patents, cannot be expected to emerge unless there is a prospect of doing business, so the value of the patent will decline and the loss will be shifted onto the creditors of insolvent Company A of Country X[37]. Moreover, the circumstances were already such that it was difficult to form a mature market for intellectual property. The birth of the automatic perfection system could spur on this tendency, as it could impede the assignment of patents. In this situation, B may ultimately have the opportunity to acquire the patents cheaply. It is feared that as a result, there will be few new entrants to the fields of business in question.

Ⅴ Conclusion

First, taking a simple patent license as a model, this report considered how the protection of non-exclusive licenses can be achieved under international insolvency legislation based on modified universalism. The conclusion is that instituting systems (public policy, exceptional connecting factors, and domestic proceedings) aimed at protecting domestic interests, in which the non-exclusive license is linked to the territorial nature of the patent, will enable licensees to receive territorial protection. Using this conclusion as a guide, this study finally established a model involving cross-licensing with a foreign element, using this to consider the relationships of rights among the interested parties and whether or not their businesses would survive. In doing so, this study clarified that territorial protection of non-exclusive licenses widens differences in the bargaining power of the parties and could have a universal negative impact on the insolvency of multinational corporations.

Here, the term "universal" means that the issue will certainly not remain merely somebody else's problem. This is likely to become pronounced in the opposite situation (if insolvency proceedings are instituted in relation to Japanese Company B). Let us summarize the relationships of rights in that situation between patent assignee C and non-insolvent party to the agreement A (the company from Country X). If Country X has a registration system, A could continue its business in Japan, whereas C may not be able to succeed to the business in Japan. Moreover, if Country X has an automatic

perfection system, A could continue its business in both Country X and Japan, whereas C may not be able to succeed to the business in either Country X or Japan. Accordingly, Company A of Country X would be at an advantage in negotiations concerning an agreement between the three parties. In this kind of situation, the value of the patents would decline and it would be difficult to reorganize insolvent Japanese Company B. This would ultimately shift the burden onto B's creditors. In addition, A could bargain down the price for B's patents, which could ultimately impede new entry to the field. There is a risk that the system of automatic perfection for non-exclusive licenses could have such side-effects. As such, there could well be a need to pay close attention to ensure that the existence of this system does not cause a slowdown in economic activities that are not centered on licensing.

[1] Shinto Teramoto, International Patent Licenses and the Insolvency of Licensers, in Nishimura & Asahi and Nishimura Institute of Advanced Legal Studies (eds.), Japanese Law amid Globalization (Anthology in Memory of Toshiro Nishimura), at 405 onward (Shojihomu, 2008).

[2] Article 99, paragraph (1) of the former Patent Act.

[3] For the presentation of this issue and developments in arguments, see Hideyuki Sakai, International Insolvency (2): Effect (Security, Enforcement, and Insolvency Today 15), Jurist No.1451, at 77 (2013).

[4] In making the following remarks comparing the two in terms of cost, distribution, predictability, and reorganization, the author is particularly indebted to Samuel L. Bufford, "Global Venue Controls Are Coming: A Reply to Professor LoPucki," 79 American Bankruptcy Law Journal 105, 141 (2005). A Japanese-language translation of this paper can be found in Kazuhiro Yanagida (trans.), Forum Controls in International Insolvency Cases [I, II, III], Journal of the Japanese Institute of International Business Law Vol.36, No.1 at 4 onward, No.2 at 191 onward, and No.3 at 319 onward (2008).

[5] The author is indebted to Kazuhiko Yamamoto, International Insolvency Legislation, at 201 onward (Shojihomu, 2002) for the translation of the Model Law.

[6] <http://www.uncitral.org/uncitral/en/uncitral_texts/insolvency/1997Model.html> (accessed June 3, 2014).

[7] <http://www.uncitral.org/uncitral/en/uncitral_texts/insolvency/1997Model_status.html> (accessed March 22, 2014).

[8] Yamamoto 2002 supra note 5 at 42-43.

[9] For example, see Toshiyuki Kono, Private International Law of Insolvency, Katsumi Yamamoto, Kazuhiko Yamamoto, and Toshiyuki Kono, New Developments in International Insolvency Legislation: Theory and Practice (Special Issue of Kinyu Shoji Hanrei No.1112), at 147-148 (2001).

[10] Ibid.

[11] Ibid.

[12] Yamamoto makes this point concerning predictability for the beneficiary in relation to the law applicable to avoidance (Kazuhiko Yamamoto, Recent Problems in International Insolvency, Rule of Law, No.170, at 14 and note 42 (2013)).

[13] Hiroshi Morita, The Laws Applying to the Right of Segregation and Security Interests in Insolvency [Final] (A Review of International Insolvency Law 4), NBL No.660, at 61-62 (1999).

[14] Ibid.

[15] Yoshihisa Hayakawa, A Consideration of International Insolvency from the Perspectives of Private International Law and the Law of International Civil Procedure, Rikkyo Law Review, No.46, at 155 onward (1997).

[16] For example, see Yasushi Nakanishi, Aki Kitazawa, Dai Yokomizo, and Takami Hayashi, Private International Law, at 259 (Yuhikaku, 2014).

[17] Morita 1999 supra note 13 at 61-62.

[18] Shinnosuke Fukuoka, International Insolvency (1): Applicable Law and Recognition (Security, Enforcement, and Insolvency Today 14), Jurist No.1450, at 85-86 (2013).

[19] Yamamoto 2013 supra note 12 at 14 and note 42.

[20] Article 4 of the EU Regulation.

[21] See Articles 6, 13, 8, 10, etc. of the EU Regulation.

[22] Kono 2001, supra note 9 at 153.

[23] Eiji Katayama, The Significance of Parallel Insolvency, Katsumi Yamamoto, Kazuhiko Yamamoto, and Toshiyuki Kono, New Developments in International Insolvency Legislation: Theory and Practice (Special Issue of Kinyu Shoji Hanrei No.1112), at 104 (2001).

[24] Report of Research Group on Expediting Business Rehabilitation (2nd season) V, Various Issues Concerning International Aspects of Bankruptcy Practice (Report 5), NBL No.994, at 78 (2013).

[25] Ibid, at 78 and note 10.

[26] Katayama 2001 supra note 23 at 106-107, and 108.

[27] Yuko Kawasaki, Universalism and the Protection of Domestic Interests in International Insolvency Law (Domestic Law): Insights from the German Government's Draft Revision to Germany's Insolvency Law, The Hitotsubashi Review, Vol.117, No.1, at 176-177 (1997).

[28] Katayama 2001 supra note 23 at 105.

[29] See Article 31 of Model Law and Katayama 2001 supra note 23 at 104.

[30] Katayama 2001 supra note 23 at 107-109.

[31] Ibid.

[32] Ibid, at 105 and note 4.

[33] The issue discussed here is public policy during proceedings (Article 6 of the Model Law and Article 21, item (iii) of the Foreign Insolvency Recognition and Assistance Act).

[34] Using the Spansion Japan case as an example, Shimadera and Matsunaga point out that a rejection damages claim (RDC) arising from the rescission of an executory contract can lead to the recovery of substantial sums of money in the USA (Motoi Shimadera and Takashi Matsunaga, Spansion Japan (3): Problems in Parallel Insolvency Involving Japan and the USA (Verifying DIP Reorganization 1), NBL,

No.953, at 52 (2011)).

[35] In the Spansion Japan case, the Japanese subsidiary (Spansion Japan) filed a lawsuit for administrative expenses against its US parent company (Spansion US), seeking payment of proceeds of sales based on the former contract price in the USA; using this as a lever, it succeeded in acquiring the intellectual property license that it needed for its future business.

[36] Eiji Katayama, Handling of Insolvency under the Automatic Perfection System, Nobuhiro Nakayama, Tomokatsu Tsukahara, Yoichi Omori, Masayasu Ishida, and Eiji Katayama (eds.), Toward the Development of a Nation Based on Intellectual Property (Festschrift for the 80th Birthday of Minoru Takeda), at 131-133 (Japan Institute for Promoting Invention and Innovation, 2013).

[37] Ibid.