I) Analysis of the current substantive law

1) The regulation of co-ownership may depend on the origin of co-ownership.

It may be considered that, in case the object of an intellectual right (esthetical, technical or commercial) is jointly created by two or more persons, the rules applicable to such a situation may be different from those applicable in the situation when the co-ownership results from the division of the same right among different persons as the consequence, for example, of heritage or a division of a company.

Also, there may be the situations where the co-ownership is imposed in fact by one party on the other in case of some technical creation (for example in case of the improvement or modification of the previous creations which not always may result in the independent right).

Therefore, the groups are invited to indicate if, in their national laws, the rules related to the co-ownership of IP Rights make any distinction in the applicable rules to the co-ownership of an IP Right in case the origin of the co-ownership rights is not voluntary but results from other situations, including the division of a right in case of a heritage.

In this context the Groups may also indicate if there are any legal definitions of co-ownership of the IP Rights adopted in their countries and what these definitions are.

In general the acts governing industrial property rights only regulate the formation of co-ownership in such rights, i.e. the case that, for example, that several persons jointly made one invention (§ 6 2nd sentence Patent Act (PatG)) or a design was jointly created by more than one designer (§ 7 (1) 2nd sentence Design Act (GebrMG)). However, the provisions mentioned do not provide for the legal relationship between the co-owners. In this regard, the provisions concerning joint-ownership (Bruchteilsgemeinschaft, § 741 Civil Code (BGB)) apply. Under these provisions it is irrelevant whether co-ownership originates from common invention/creation or results from assignment to more than one assignee.

With regard to copyright law § 8 Copyright Act (UrhG) provides for rules governing the formation of joint authorship, i.e. the case that authors have jointly created a work with regard to which ist is impossible to separately exploit the single contributions. Furthermore, § 8 (2) Copyright Act provides that the rights to publish and exploit the work(s) are commonly owned by the authors. In contrast to the rules for industrial property this joint ownership has the ef-
fect that none of the co-authors may individually dispose of his part. Since copyrights as such may not be transferred in a transaction, but merely can be the subject of a right of use, co-ownership in copyrights cannot arise by means of legal transaction.

The rules of inheritance law, which form a part of the Civil Code, may lead to different types of legal relationships between the heirs: These form a community of heirs (Erbengemeinschaft), which is governed by rules largely corresponding to those of the part owners’ community, and cover the entire heritage. Accordingly, each heir may dispose of his right to the heritage, whilst the other heirs have a right of pre-emption (§ 2034 (1) Civil Code). The administration of the heritage lies at the hands of the community of heirs (§ 2038 Civil Code). The individual heir may not, however, dispose of the individual assets of the heritage (§ 2034 (2) Civil Code), such as a patent. Such patent will remain part of the common estate until the community of heirs is dissolved and liquidated according to § 2024 Civil Code.

In principle, the same applies in the field of copyright: Although copyrights are not transferable by legal transactions inter vivos, they remain transferable in mortis causa. The legal relationship of co-heirs is not governed by § 8 (2) Copyright Act, but exclusively subject to the rules governing the community of heirs provided for by §§ 2032 et seq. Civil Code. This means that different rules apply to co-authors on the one hand, and co-heirs of an author on the other hand.

2) A large debate, during the Singapore EXCO, took place with regard to the notion of the exploitation of an IP right.

More specifically, the groups were highly divided on the issue of outsourcing or subcontracting the exploitation of an IP right.

This question, particularly important in case of patents, relates particularly to the problem of subcontracting when a co-owner of the patent who, in principle, and at least according to the position expressed by AIPPI in its 2007 Singapore Resolution, has the personal right to exploit his own part of the patent, specifically by manufacturing and selling the goods or processes covered by the patent, needs to subcontract partially or totally the manufacturing of the product covered by the patent.

No common position could be achieved by the Singapore EXCO in 2007 on the question if the right to exploit the patent should also cover the right to subcontract, specifically the manufacturing of all or part of the invention being the subject matter of the patent.

Therefore, the groups are invited to present the solutions of their national laws on this specific point.

As pointed out in our last report, German law – jurisdiction included – does not provide clear guidance on the question whether or not, and if so to what extent, individual co-owners of a commonly owned IPR may grant licenses to third parties. Even less clear is where proprietary exploitation of an IPR by a co-owner ends and where the use of the right (by third parties) under a license starts.

1 BGH GRUR 1982, 308, 310 – Kunsthändler.
2 German National Group, Q 194, question 4.
3 German National Group, Q 194, question 4.
In general, German law distinguishes between agreements that grant a license to produce on the one hand, and mere production agreements with contract manufacturers on the other. In German legal terms, the latter is a use (of the invention) by the patent owner itself, and so is the German National Group's understanding of the Singapore Resolution concerning Q 194. There, it is stated (no. 4 a) that each co-owner is entitled to individually exploit the patented invention, and this must therefore similarly apply to the so-called contract manufacturing agreements. The characteristic element of such manufacturing contract is the fact that the contractor has the right to manufacture the product, but not to positively use the invention; accordingly the economic risk typically connected with the production (merchantability, market success) remains with the co-owner of the patent.

The German National Group holds that such contract manufacturing agreements should be covered by Article 4 (a) of the Singapore Resolution, in order to prevent the discrimination of co-inventors, which have no proprietary production facilities, as they otherwise would be deprived of the essential IP exploitation right without an economic equivalent. In fact Article 5 (a) of the Singapore Resolution reveals that, within the framework of the harmonized law supported by AIPPI, the granting of a license is subject to additional requirements, in particular, to the consent of other co-owners. Accordingly, co-owners without their own production facilities would be dependent on the other co-owners' good will (namely, their consent) in drawing any benefit at all from their right in case contract manufacturing agreements would not fall within the category of proprietary exploitation by the co-owner. One can certainly not expect that those co-owners would build their own plant in order to exploit their right.

3) The working guidelines established for the Singapore EXCO contained also the question related to the possibility of the co-owner of an IP right to licence this right to third parties.

No distinction was, however, made in this context between a non-exclusive and an exclusive licence.

No differentiation was also made on the number of licences which could be given by one co-owner in case the non-exclusive licence would be permitted by the national law.

And if the AIPPI adopted a resolution on the conditions of granting the licence, it also appeared during the discussion at the EXCO that some different or more precise solutions could have been obtained if the Working Committee had made a distinction between the nature of the licence.

Therefore, in order to improve the work of the EXCO, the groups are invited to specify how the differences in the nature of licenses (non-exclusive or exclusive) influence the solution of their national laws in respect of the right to grant the licence by a co-owner of an IP Right.

For most IPR's the question whether the co-owner of an IPR may, without the other co-owners' consent, grant licenses to third parties, is determined by the rules regarding common

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4 See e.g. Stumpf/Groß, Der Lizenzvertrag (2008), no. 33.
5 Stumpf/Groß, Der Lizenzvertrag (2008), no. 33.
ownership (cfr. question 1). In this context, a distinction must be made between exclusive and non-exclusive, i.e. single licenses.

It is commonly accepted that granting an exclusive license in a commonly owned IPR constitutes an act that requires the consent of all co-owner, because § 745 (3) Civil Code provides that no co-owner may be deprived from his right of use in the commonly owned asset (§ 743 (2) Civil Code) without his consent. It further is generally acknowledged that the co-owners may, at least with a majority vote, grant single licenses, as this will not impede the co-owner’s individual right of use and thus the minority of co-owners is not negatively affected.

It is under discussion, however, to what extent an individual co-owner may grant a single license in the co-owned right.

Various sets of rules have been discussed. The right to grant a single license under a co-owned right for two reasons cannot be inferred from § 747 (1) Civil Code, which states that each co-owner may dispose of its part. First, the granting of a non-exclusive license is no disposal in terms of § 747 (1) Civil Code. Secondly, it is held that a license solely grants a right to use the protected right as such and not just to use a portion of it. It is however also discussed whether such a right, deriving from the co-owner’s own right to use in accordance with § 743 (2) Civil Code, should be accepted, either by means of a transfer of the right by the co-owner combined with his own waiver of use, or by constructing such a right in analogy to the granting of sub-licenses.

Against this assumption, it has been argued that, in permitting the individual co-owner the granting of single licenses, the circle of persons with a right to use is consequently enlarged, thus affecting the use of the other co-owners. This is however, not entirely convincing, since the co-owner’s extensive utilization of their own right to use can affect the other co-owners even more than the granting of a license by a co-owner who has no opportunity to exercise his genuine right to use.

In any case, the relevant question must be solved with regard to the internal relationship between the co-owners and the necessary balancing of interests must take place within the framework provided by § 745 Civil Code: It comes down to the question whether the co-owner may – in the context of the fair and equal administration of common ownership (§ 745 (2) Civil Code) – request that he may make use of his respective share by means of a granting a licence in order to exploit his share to an extent corresponding to the other co-owner’s use and thereby achieve a similar benefit from his co-ownership (§ 743 (1) Civil Code)? This solution would be in tune with the jurisdiction of the Federal Court of Justice (BGH), according to which financial compensation between co-owners in the event of diverging intensity of

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8 The concept of licences in parts of a right (“Anteilsizlenzen”) is discussed in legal doctrine.

use is granted immediately, yet only with regard to § 745 Civil Code, and not under § 743 Civil Code\(^{10}\).

The question regarding whether or not the co-owner who intends to grant a license, can successfully request the consent of the other co-owners thereto, may, in our opinion, not only be answered with regard to the number of the eventual licensees. The discussion should rather concentrate on precisely addressing the conditions under which such consent may not be refused. Therefore, criteria should be developed to determine how the reservation contained in Article 5 (a) of the Singapore Resolution could be interpreted, and to define the circumstances in which the remaining co-owners may withhold their consent.

We believe that consent should not be refused if the remaining co-owners (non-licensors), despite the granting of the license, remain in the position to – with reasonable efforts – exploit their right in a commercially successful manner\(^{11}\). Consent should not be refused if the licensee would have no other alternative, in particular, no opportunity to exploit his right on his own.

In our opinion, the core of the conflict of interests which needs to be solved is as follows: Any harmonized law must take care that joint rights in IPR's will be lucrative for each of the respective owners – be it by means of individual acts of exploitation, by own use of the invention, design or trade mark, or by transferring the share or granting a license which fits with the individual co-owner's interests. Individual exploitation by a single co-owner must be limited to the extent that it does not adversely affect the other co-owners' corresponding exploitation. These interests have to be balanced in each individual case, taking into consideration the specific, personal and economic situation as a whole. Simply to reduce the number of admitted licenses to a certain limit would not solve the problem.

4) One of the most difficult question which appeared during the discussion at the Singapore EXCO was the possibility to transfer or assign a co-owned share of an IP right.

And the problem seemed so complicated that finally the Working Committee decided to withdraw its proposal for a resolution on this point.

In fact, the discussion showed that the solutions concerning the right to transfer or assign may vary since there is a huge variety of situations related to the transfers of the co-owned share.

Notably, one could imagine that the transfer is operated on the whole share of the co-owned IP right, but it also could be simply an assignment of a part of the co-owned share, creating therefore an additional co-owner of an IP right.

And such transfer of a part of a share of an IP Right could be used to overcome the limitation which could exist on the granting of licences by the co-owners.

\(^{10}\) BGH GRUR 2005, 663 – Gummielastische Masse II; BGH GRUR 2006, 401 – Zylinderrohr.

\(^{11}\) This criterion was developed in German legal doctrin to answer the question in which cases a financial compensation for individual exploitation should be granted to other co-owners, see Kraßer, Patentrecht (2009)\(^{6}\), p. 355. The conflict situation apparently corresponds to those under discussion here.
The Groups are therefore invited to precise their position on the question of the transfer or assignment of a share of the co-owned IP Right, taking into the consideration the different situations which may occur (the transfer of the whole share of a co-owned IP Right or the transfer only of the part of the share of the co-owned IP Right).

As previously stated, a limitation of the number of assignees does not appear appropriate: For example, the assignment of his right by one co-owner to a small consortium of assignees may affect the other co-owners rights far less than the assignment to one single, but economically strong, purchaser.

In general a transfer of shares in a commonly owned asset is admitted under German law (§ 747 1st sentence Civil Code). This provision may be seen as the core legal model for the community of part owners and may be summarized as follows. As the part owners are not contractually bound they must be granted a far-reaching freedom to act in the market. An exception however applies under copyright law as a consequence of the general rule that copyrights are non-transferable inter vivos. Thus an assignment of a share is only admitted in the course of the procedure of dissolving and liquidating the community of heirs (§ 29 Copyright Act). For the remainder, co-authors may only waive their shares in favour of the other co-authors (§ 8 (4) Copyright Act).

But of course legal doctrine has observed that the consequences of this legal model may lead to inequitable results in the field of IPR's. Suggestions, according to which the assignment of shares should not be admitted in particular cases, regularly rely on general principles of German civil law. For example, the assignment is not admitted if its single purpose is to harm another co-owner (cf. §§ 226, 826 Civil Code (prohibiting intentional, unjust harassment)). In addition, within the legal framework of the community of co-owners of an IPR, the general requirement to act in good faith and to respect the other co-owners' interests (§§ 242, 241 (2) Civil Code) applies. Against this background, there is an argument de lege ferenda to establish a general duty of an individual co-owner to accept an equivalent purchase offer of an other co-owners, and to inform them in due time about the intention to assign its share.

The German National Group supports this argument, which goes beyond the current German law. It would support a draft resolution which contains elements of a right of first refusal of co-owners of a community of part right owners in IPR's.

5) The exercise of an IP right co-owned by two or more co-owners each of whom has in principle the right to exploit the co-owned right, may also raise difficulties from the point of view of competition rules.

The co-owned IP Rights may give the co-owners the dominant position on the market and their agreement on the co-owned IP Rights (when for example it prohibits the licensing) may also be seen as eliminating the competitors from the market.

The groups are therefore invited to explain if their national laws had to treat such situations and what were the solutions adopted in those cases.

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13 Kraßer, Patentrecht (2009), p. 357.
Agreements between co-owners of IP rights concerning their exploitation can relate to the co-owners’ own use of the intellectual property right or to the granting of licenses to third parties.

As regards simple co-ownership of patents, where no further common purpose is intended and where the internal relationship between the co-owners is therefore determined according to the rules of joint ownership (cf. clause 1a of the already available report on Q 194), each co-owner is entitled to use the protected invention as long as this does not impair the use by the other co-owners (§ 743 (2) Civil Code). Thus, the own use of the individual co-owners does not require an agreement, in principle. However, if the co-owners agree on a certain division of the use, such as the division of markets or a material delimitation of the products to be produced using the invention, such agreements are subject to the prohibition of agreements restricting competition pursuant to § 1 Competition Act (GWB), and the exemption pursuant to § 2 Competition Act, which in turn refers to the block exemption regulations of the Council or the Commission of the European Community about the application of Art. 81 (3) EC. As a matter of fact, these regulations are only applicable if competition is appreciably impaired by the agreement.

In copyright law, the publication and exploitation of the work always requires the consent of all joint copyright holders (§ 8 (2) Copyright Act. Agreements between joint owners of copyright are especially relevant with regard to software development or in the area of applied art. Such agreements can then also be subject to the prohibition of agreements restricting competition, if the relevant prerequisites are met.

In trade mark law, the co-ownership of a trade mark which is not aimed at joint licensing is hardly possible. This is because trade mark law provides for a division of a mark, so that the same mark can be held by several owners as an individual trade mark, each for different goods/services. However, it is also conceivable that a trade mark is held by several co-owners and in this case the individual use of the trade mark by the joint owners can also be subject of an agreement restricting competition.

In summary, it can therefore be said concerning the question of own use that – irrespective of whether or not the individual use requires the consent of the other joint owners – agreements concluded in this respect can be subject to the prohibition of agreements restricting competition if competition is appreciably impaired by them and the prerequisites of exemption are not fulfilled. Cartel law is independent from the provisions of civil law governing the administration of the jointly held property right, so that it cannot be argued that the provisions of cartel law do not apply on such agreements under civil law\(^\text{14}\). If the individual use of a property right is not based on an agreement due to the fact that such an agreement is not required, the prohibition of agreements restricting competition does not apply. In addition, although the mere waiver by one joint owner of his/her user right for the benefit of another joint owner can have consequences restricting competition, such waiver does not constitute an agreement restricting competition.

\(^{14}\) cf. Immenga/Mestmäcker, Wettbewerbsrecht (2007)\(^4\), § 1 GWB, no. 300, on research cooperations.
In contrast, the situation is different with regard to the licensing of property rights, which in principle can only be carried out jointly.

When assessing agreements governing the licensing of property rights, one must differentiate between a regulation concerning whether and to whom a license will be granted, and the content of the provisions of such license agreements.

The denial of a license can violate the prohibition of discrimination pursuant to § 20 Competition Act if the co-owner has market dominance due to the property right. However, in this context the Federal Court of Justice held in an important judgment of July 13, 2004\textsuperscript{15} that the owner of a patent or of another industrial property right or of a copyright has a wide discretion for granting different licensing terms to different parties or for even complete denial of a license, as the unequal treatment of parties requesting a license – with respect to the scope of the right to use the property right – is a core element of the exclusionary effect of a property right as such. However, discrimination without objective justifications could be found illegal if the market dominant position of the patentee does not only stem from the technical contribution itself the patent is based on, but rather, for example, from the fact that the invention became part of an industry standard. Apart from such special cases, it should be left to the patentee whether and to whom he/she will grant a license. Thus, the same must apply to joint property right holders. As long as no special circumstances are present, the exclusive effect being an immanent part of a property right includes the right to license the use of an property right not to every interested party, but rather - instead of or in addition to the own use - only to certain individuals. There should be no high requirements as to objective justification for such kind of unequal treatment.

The content of the provisions of license agreements, however, is subject to the prohibition of agreements restricting competition pursuant to § 1 Competition Act. There are no differences between the joint licensing by several owners of a property right and the licensing by the single owner of a property right. Accordingly, the license agreement must not contain any provisions which appreciably impair competition in the relevant market and are not exempted pursuant to § 2 Competition Act.

Finally, it is to be noted that jointly held property rights can certainly also be instruments of agreements virtually aimed at a restriction of competition. It is self-evident that such agreements are subject to the control of cartel law in their entirety, which, however, cannot be enlarged upon here.

6) The groups are invited to investigate once more the question of the applicable law that could be used to govern the co-ownership of various rights coexisting in different countries.

This point was left for further study by the paragraph 9 of the resolution adopted in Singapore.

And more specifically the Groups are requested to indicate if their national laws accept that the co-ownership of an IP Right, even if there is no contractual agreement between the co-owners, may be ruled by the national law of the country which presents the closest connections with the IP Right.

\textsuperscript{15} BGH WuWE DE-R 1329 – Standard-Spundfass II.
If this is the case, what in the opinion of the Groups would then be the elements to take into the consideration to assess this connection?

The Groups of the EU Countries are in this context asked to indicate if they consider that Council Regulation of June 17, 2008 (No 593/2008), so called “Rome I” may be applicable to the Co-Ownership agreements.

In absence of explicit provisions regarding the applicable law (conflict of laws) for intellectual property rights, the determination of the applicable law concerning the legal relationship between joint inventors and concerning agreements concluded with third parties requires a separate discussion of four distinct questions, resulting in a respectively independent determination of the applicable law:

1. the law applicable to the intellectual property right, determining the question of creation and original ownership of the property right;

2. the law applicable to the joint ownership relations, i.e. the applicable law to the creation and administration of joint ownership;

3. the law applicable to contractual obligations concerning possible contractual agreements between the co-owners regarding the administration of the joint right;

4. the law applicable to contractual obligations concerning the legal relationships of the joint ownership to third parties, especially contracts governing the contractual exploitation of the property rights;

As for the first question, the determination of applicable law seems unproblematic: Even if there is no express statutory provision, it is acknowledged by scholars and case law that the question of the availability of protection and original ownership is to be determined according to the doctrine of national protection\textsuperscript{16}. It is a basic rule that both the scope of protection and original ownership are governed by the law of the country for which protection is sought. This rule results from the principle of territoriality\textsuperscript{17} valid in intellectual property law. Therefore, if co-ownership relates to a creation for which protection is sought in multiple countries (bundle of protective rights), the question of original ownership has to be decided individually for each country\textsuperscript{18}.

However, it is more difficult to decide the question of the applicable law to the relationship between several co-owners of an intellectual property right. First of all, it must be noted that there are no provisions in existence also with regard to this question. EC International Private Law so far does not cover the questions of legal statute of individuals and entities, so that this question cannot be solved by referring to the Rome I Regulation\textsuperscript{19}; likewise, the German International Private Law Act (\textit{EGBGB}) does not contain provisions concerning the applicable law to legal statute of individuals and entities. According to the prevailing opinion of scholars and case law, however, the law applicable to a joint ownership (\textit{Bruchteilsgemeinschaft} or \textit{Gesamthandsgemeinschaft}, respectively) follows the law applicable to the jointly owned object\textsuperscript{20}. Therefore, the so-called “connecting factor” concerning the relationship between co-owners follows the “connecting factor” concerning the intellectual property right, i.e.

\textsuperscript{16} By Welser, in: Wandtke/Bullinger, UrhG (2006)\textsuperscript{2}, Introduction to §§ 120 et sequ. no. 4; von Hoffmann, in: Staudinger, Art. 38 EGBGB, no. 591; c.f. BGH, GRURInt. 2003, 71, 72 – FROMMIA.


\textsuperscript{18} Fezer/Kos, in: Staudinger, IntWirtschR (2006), nos. 848, 857

\textsuperscript{19} C.f. the exemption provided for in Art. 1 (2) lit a and f of the Regulation 593/2008 of 17.6.2008, OJ EU 177, 6.

\textsuperscript{20} BGH, NJW 1998, 1321 (for co-ownership); Sprau, in: Palandt, BGB (2009)\textsuperscript{68}, § 741 BGB, no. 1.
is governed by the doctrine of national protection. This is an objective “connecting factor”; a choice of law is not possible. As a consequence, a joint ownership of a German intellectual property right is generally subject to German substantive law. Therefore, § 741 et sequ. Civil Code apply with regard to property rights or the special provisions of § 8 Copyright Act for copyrights – provided that there are no special agreements on the joint exploitation differing from the statutory regulations (c.f. question 1).

Thus, the applicable law governing the property rights and the relationship between the co-owners are the same. Problematic, however, are two questions: firstly, what is the substantive scope of application of the law applicable to the joint ownership, secondly, whether the basic rule set forth above needs to be modified if the joint ownership comprises property rights of several states. A strict compliance with the basic rule by contrast would lead to the situation that there is no uniform applicable law to the joint ownership, but the joint ownership being rather subject to a different applicable laws with regard to each intellectual property right of the bundle of rights.

With regard to the substantive scope of the applicable law concerning the joint ownership, it should be noted that all questions concerning the statute of the joint ownership are covered: the reason for the creation and termination of the joint ownership, the legal status of the co-owners including the decision-making competence concerning the administration. Not covered, however, are purely contractual agreements between the holders of the rights (c.f. question 1). If the co-owners are based in different states and if, as a result, there is a cross-borderer relationship, it is not apparent why the parties should not be able to choose the applicable law for the contractual agreement. Due to a lack of an express choice of law it is accepted that in general the law applicable to contractual agreements follows the law applicable to the joint ownership. However, it should be clear that the law applicable to contractual agreements may also deviate from the law applicable to the joint ownership; this is important for two reasons: on the one hand, this is the basis for a uniform decision on the applicable law to contractual agreements regarding the administration of intellectual property rights that are subject to various national laws; on the other hand, it becomes clear that individual sub-questions – e.g. the legal and contractual capacity and the legal statute – may be subject to different applicable laws.

The question whether it is possible to agree on a uniform applicable law regarding the administration of a bundle of property rights in several states leads to the question whether the law applicable to the joint ownership must always follow the doctrine of national protection. It is accepted that the doctrine of national protection is – due to the principle of territoriality – inevitable with respect to the creation of a property right and original ownership; however, it is not convincing that a uniform law applicable to the joint ownership should be impossible. It is rather suggested to refer to the principle of the closest connection and thus determine the law applicable to the joint ownership according to the residence of the (majority of) co-owners. The necessity of such uniform applicable law becomes especially clear when dealing with a preliminary stage of an intellectual property right, e.g. a patent application filed with the EPO having more than one designated contracting states. If all co-owners have residence in Germany, German law would also be applicable according to the opinion stated above, even if this application leads to a foreign protective right, in addition to a domestic protective right. However, if the various right owners have residence in different states, the principle of the closest connection has to be applied. Apart from the aspect of residence, one could also gear to the question as to which co-owner provided the major share, from which territory and in which language the administrative measures (e.g. the application) are carried out or to which legal system the parties have submitted their contractual agreements.

As far as the co-ownership community makes use of the property rights by way of legal transactions, e.g. by assignment or licensing, we are dealing with a contract which will be
subject to the Rome I Regulation in future\textsuperscript{21}. As a result, the general basic rules apply\textsuperscript{22}. According to Art. 3 Rome I Regulation the parties can choose the law applicable to the contract\textsuperscript{23}. Lacking a choice of law agreement, the law of the state in which the party, which effects the characteristic performance under the contract, has its residence applies. In case of an assignment on the basis of a legal transaction, this follows from Art. 4 (1) lit a Rome I Regulation, otherwise according to Art. 4 (2) Rome I Regulation. The party performing the service conforming to the contract (i.e. the non-monetary service) is the holder of the property right for both the legal assignment and the licensing. As far as the state of residence and the protected country are not the same, it is recommended, however, to apply the escape clause according to Art. 4 (3) Rome I Regulation.\textsuperscript{24}

It seems problematic, however, whether the transaction (assignment) itself also follows the law applicable to the contractual obligations (so-called no-splitting doctrine (\textit{Einheitstheorie})) or whether this must be "connected" objectively according to the doctrine of national protection (so-called splitting doctrine (\textit{Spaltungstheorie})). With regard to the no-splitting doctrine, it is especially argued that it enables a uniform assessment of an assignment with respect to several countries; an advantage of the splitting doctrine is, however, that it ensures the assignments being in conformity with the law of the country of protection in question. Contrary to tangible property law, it is generally accepted that assignments of intangible property rights follow the law applicable to the contractual agreement.\textsuperscript{25}

According to this approach, the proper law of the contract can be chosen freely and at the same time governs the law applicable to the transaction. If the parties have not made a choice with regard to the applicable law, the contractual assignment of a German property right is subject to German law.

If the jointly owned property right is not a national property right but a Community IPR (Community trademark (CTM) or Community design (CD)), this leads to discrepancies with regard to the first two questions, whereas for the rest, the above-mentioned rules apply accordingly.

The starting point is that the question of the original ownership of a Community protective right is to be assessed autonomously according to the relevant regulation. On this first level, a reference to international private law is not necessary. The generally acknowledged rule that the law applicable to the joint ownership follows the law applicable to the intelectual property right, cannot, however, be applied to the Community law, since on Community level, no such provisions exist. In order to bridge this gap, one must refer to the conflict of law rule of the statute for Community IPRs. Since, in this case we are not dealing with a question regarding the statute of property rights, but with the ownership being a prerequisite of contractual exploitation, the rules on applicable law set for the in the provisions dealing with intellectual property rights as subject matter of property (Art. 16 et sequ. CTMR, Arti. 27 et sequ.

\textsuperscript{21} At present, the 1980 Rome Convention (on the law applicable to contractual obligations) applies, which is implemented into German law by Art. 27-35 EGBGB, so that the choice of law is presently results from Art. 27 EGBGB, the objective connecting factor from Art. 38 EGBGB. With regard to content there is no deviation with regard to the Rome I Regulation.


\textsuperscript{23} Regarding the freedom of choice c.f. \textit{DrexI}, in: MünchenKomm BGB (2006)\textsuperscript{3}, vol. 11 IntlImmGR, no. 133

\textsuperscript{24} C.f. Staudinger/Fezer/Kos, Intenational Economic Law (2006), marg.no. 915 et seq.

\textsuperscript{25} \textit{DrexI}, in: MünchenKomm BGB (2006)\textsuperscript{4}, vol. 11 IntlImmGR, 133 with reference to LG Frankfurt, GRUR 1998, 141, 142.
CDR) are relevant. Consequently, the Community protective rights are generally subject to a uniform applicable law:

The primarily applicable law is the law of the state in which the owner of rights has its residence. If all owners have their residence in Germany, the Regulation therefore refers to German law. If no joint residence exists, the residence of the owner named first in the register determines the applicable law, whereas with respect to non-registered rights an agreement between the parties is to be taken into account. This constitutes a reference of all norms to the national law, including International Private Law. It also follows from this that, in the case of a reference to German law, the principle of "objective connection" applies, so that a choice of law is not possible.

7) Finally, the groups are also invited to present all other issues which appear to be relevant to the question and which were not discussed neither in these working guidelines, nor in the previous ones for the 2007 EXCO in Singapore.

The German Group would like to present two further aspects for discussion.

a.) Quorum for joint decisions regarding exploitation

So far, the reports on Q 194 have only addressed individual rights of co-owners: Do individual co-owners have a right of use, licensing, or transfer of co-ownership?

Decisions that must be taken jointly and that concern the co-owners’ joint right as such are important as well: In patent filings, for example, co-owners must decide on claim modifications and restrictions. Furthermore, after an IP right has been established, co-owners may wish to sell the IP right as a whole or to grant exclusive licences with the consequences that all other co-owners lose their rights of use and that only a particular third party is entitled to use the invention.

The German Group holds that resolutions concerning an IPR as a whole can generally be brought about by majority decision. This said, minority co-owners must participate in the proceeds of the joint decision regarding the exploitation of an IP right pro rata to their shares in the IP right. Moreover, minority co-owners should be afforded a right to veto in case they otherwise are deprived of their individual right to exploit the IPR.

For example, majority resolutions should be inadmissible with regard to the entitlement of a single co-owner an exclusive right to license the IP right even if the majority resolution provides that all co-owners are to share in the licence proceeds pro rata to their shares: No majority resolution may strip co-owners of the right to exploit their shares independently, whether by own use, individual licensing, or sale of their shares.

b) Legal Status of Licences

The exploitation of a patent or patent filing having several co-owners can be particularly problematic if a party’s co-ownership has resulted from that party’s successful intervention to...

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27 Art. 16 (3) CTMR, Art. 27 (2) lit b CDR.
28 Art. 27 (2) lit a CDR.
29 In the German law, this corresponds to § 745 (1) Civil Code.
30 Cf. § 745 (3) 2nd sentence Civil Code.
challenge the registered patent applicant’s or patent holder’s exclusive ownership of the patent. This situation exists namely if the invention, in addition to the inventors stated in the patent filing or in the patent, turns out to have involved other inventors that have not assigned their rights to the patent applicant or the patent holder.

According to § 8 Patent Act, a rightful holder whose invention was filed by a non-rightful applicant may, while the patent filing is pending and within a period of two years after the publication of the patent grant, demand that the claim for grant of the patent be assigned to them. If the patent holder has acted in bad faith, the rightful holder may even demand assignment after that period has expired. If the registered applicant or patent holder is a rightful applicant but not the only rightful applicant, then the rightful holder who is not the applicant or holder of the patent can demand the grant of co-ownership to the patent filing or the patent.

While § 15 (3) Patent Act provides that transfer of title does not prejudice licences previously granted to third parties, the prevailing view holds that this does not apply if a rightful holder has succeeded with a claim under § 8 Patent Act enforced against a non-rightful patent applicant or patent holder. Acquisition of a licence in good faith is impossible under German law.

The situation that a party which successfully enforces a claim under § 8 Patent Act is not the sole beneficiary and thus just acquires co-ownership to the patent filing or the patent is not expressly addressed in legal reading. On the other hand, in the absence of additional contractual understandings between the holders, a community of co-ownership is understood to exist, which according to the currently prevailing view requires the consent of all co-owners for a rant of a licence to be valid. It appears to be logical that in this case too, a licence granted by the current patent applicant or patent holder expires if the other party has acquired co-ownership and does not approve the licence.

Particularly in situations where the current patent applicant or patent holder does not exploit the invention himself but has transferred the – typically exclusive – right of exploitation to a licensee, this typically involves a substantial loss for the licensee, as the latter has adapted his business to the exploitation of the licensed invention and can no longer use the licence, expecting the newly added holder of the patent to enforce his right against the licensee.

Similar to the former Art. 24 of the Community Patent Convention, Art. 6 of the draft Community Patent Regulation, which has not yet come into force, provides that a patent holder or licensee who has used the invention or actually and seriously sought to use the invention prior to the initiation of a court procedure for the grant of ownership or co-ownership to the patent or the patent filing to a third party, is entitled to a non-exclusive licence and may continue using the invention on that basis if the third party prevails in the court procedure. The applicable German law contains no such provision. In a decision issued quite some time ago, the Federal Court of Justice denied the analogous applicability of the rule provided by the Community Patent Convention under German law in a similar context holding that the legal view expressed in the Community Patent Convention was irrelevant under German law and that the legislature, in adapting the German patent law to the Community Patent Convention, failed to provide for provisions in accordance with the Community Patent Convention. The same might be true for the draft Community Patent Regulation. In precedents of more recent dates, the Federal Court of Justice did not address the implications of the enforcement of a claim under § 8 Patent Act on existing licences. A decision that accords with the legal con-

32 Cf., for example, the Singapore Resolution on Q 194.
cept of the draft Community Patent Regulation thus cannot be expected without an amend-
ment of the current law.

The German Group endorses an arrangement by which, in the case of the successful en-
forcement of a claim for co-ownership of a patent or of a patent filing, the licensee under a
licence agreement made in good faith prior to the enforcement of the claim, may continue
using the invention on condition that he has already used the invention or actually and seri-
ously sought to use the invention, as far as such use is not in conflict with overriding interests
of the new co-owner. However, the IP right must not be burdened with an exclusive licence
granted by the former holder. A possible solution would be to have such a licensee keep a
non-exclusive licence or, similar to the right of prior use according to § 8 German Patent Act,
to disallow the new co-owner to enforce his right against that licensee on the above-
mentioned conditions.

II ) Proposal for the future harmonisation

The groups are invited to present any recommendation that can be followed in the
view of the further harmonisation of national laws in the context of co-ownership, spe-
cifically on the points raised by the working guidelines above in relation to the current
state of their national laws.

The exploitation of co-owned IP rights is on the horns of a dilemma: On the one hand, any
financially reasonable exploitation requires initiative by the individual co-owners. On the other
hand, one-sided and uncoordinated exploitation activity can destroy the overall benefits of an
IP right. Therefore, any further harmonisation should consider these opposing aspects and
ensure a fair chance for each co-owner (regardless of his financial situation) to exploit his
share.

In the light of the foregoing, the German Group has arrived at the following recommendations
for its future national law:

a) Pre-emptive Right

Co-owners of an IP right should have a pre-emptive right to buy the remaining shares in the
IP right. First, this would ensure the co-owners’ freedom to dispose of their shares. Second,
this would prevent (at least to a certain extent) IP shares from being transferred to a direct
competitor of the remaining co-owners, which would be a disposition considerably affecting
the exclusiveness and the value of the IP right as a whole.

For the avoidance of doubt, the German Group, with the exception of copyrights, expressly
objects to a general prohibition of disposition: Disposing IP rights to competitors must be
allowed, at least in principle.\(^{34}\)

b) Conditions for Patent Licence Approval

Patent licences (Section 5a Singapore Resolution) ought to be approved whenever the co-
owner desirous to licence is unable to use the invention in a financially successful way and
with reasonable effort. The relevant assessment must take the financial environment of the
co-owner desirous to licence into account.

\(^{34}\) For the special cases disallowing such disposition, see the statements as to question 4) above.
The interests of the remaining co-owners must be considered as well. Withholding the approval to grant a patent licence (Section 5a Singapore Resolution) should be individually allowed if a patent licence is to be granted to a direct competitor of the remaining co-owners. In that case, the conflict of interests should be resolved in another way, for example by compensation payments. This situation should be acknowledged as an “extraordinary event” for purposes of Section 4a Singapore Resolution.

Note:
It will be helpful and appreciated if the Groups follow the order of the questions in their Reports and use the questions and numbers for each answer.

Summary

In principle, shares in IP rights must bring a financial benefit to each co-owner. Consequently, co-owners’ individual exploitation rights must be extensive, at least as a basic principle. On the other hand, individual exploitation rights are limited by corresponding (and possibly conflicting) exploitation rights of the other co-owners. The German Group believes that this conflict of interests leads to the following answers to the issues discussed here:

Contract manufacture in which the co-owner of a patent retains the typical manufacturing risk should be allowed and not be subject to any restriction or approval. Individual co-owners’ approval to the grant of licences should depend not on the number of licensees but on the co-owners’ own possibilities of exploitation. Third parties that have entered into licence agreements with a licensee in good faith must be protected. Dispositions of shares should be inadmissible if they are of a deliberately impairing nature or, with respect to the remaining co-owners, are made in breach of trust and in a “ruthless” manner.

Like any other legal relationship, the legal relationship among co-owners of IP rights is subject to antitrust rules. To determine the applicable law, one must differentiate between the origination and original ownership of a right on the one hand and the joint ownership statute on the other. Both statutes typically co-exist and base on the principle of national protection. However, co-owners are allowed to choose the substantive law applicable to their contractual understandings. As for the joint ownership statute, namely in the case of bundled IP rights, the applicable law should be determined according to the principle of closest connection.