Welcome to America, Now Go Away:
The Chapter 15 Manifestly Contrary to Public Policy Exception

Robin E. Phelan
Jordan Bailey
HAYNES AND BOONE, LLP
Dallas, TX

Chapter 15 is based on the Model Law on Cross Border Insolvency (the "Model Law"), which had been prepared by the United Nations Commission on International Trade Law ("UNCITRAL"), with significant input from insolvency practitioners all over the world.[1] It was designed to create procedures for cooperation among foreign courts where insolvency proceedings are pending in more than one country and establish guidelines for the protection of assets internationally, while being sensitive to the political issues and differing legal systems of the countries involved. Any determination of a request for assistance under Chapter 15 must be "consistent with the principles of comity."[2]

> "Comity," in the legal sense, is neither a matter of absolute obligation, on the one hand, nor of mere courtesy and good will, upon the other. But it is the recognition which one nation allows within its territory to the legislative, executive or judicial acts of another nation, having due regard both to international duty and convenience, and to the rights of its own citizens or of other persons who are under the protection of its laws.[3]

The grant of comity is not discretionary; however, the determination of whether a court should grant comity is balanced by the language of § 1506, which provides that "[n]othing in this chapter prevents the court from refusing to take an action governed by this chapter if the action would be manifestly contrary to the public policy of the United States."[4] Whether a request for relief or assistance is "manifestly contrary" to United States public policy is within the discretion of the bankruptcy court to determine.[5] The following are summaries of cases that have directly addressed the issues that surround § 1506 and its public policy exception. The summaries begin with those cases that have found certain relief would be manifestly contrary to public policy, followed by cases where the requested relief would not be manifestly contrary to public policy, and lastly a case where the issue may arise fairly soon.

In re Qimonda AG

In re Qimonda AG is probably the most prominent case to delve into the issue of whether relief requested of the court was manifestly contrary to public policy. On October 28, 2011, the Bankruptcy Court for the Eastern District of Virginia issued an opinion in the Chapter 15 case of Qimonda AG ("Qimonda").[6] The bankruptcy court held that the application of § 365(n)[7] to

---

[1] U.S. v. J.A. Jones Constr. Grp., LLC, 333 B.R. 637, 638 (E.D.N.Y. 2005).

[2] 11 U.S.C. § 1507; see J.A. Jones, 333 B.R. at 638.

[3] Hilton v. Guyot, 159 U.S. 113, 163-64 (1895).

[4] 11 U.S.C. § 1506.

[5] Micron Tech., Inc. v. Qimonda AG. (*In re* Qimonda AG Bankr. Litig.), 433 B.R. 547, 565 (E.D. Va. 2010) [Hereinafter *Qimonda I*].

[6] *In re* Qimonda AG, 462 B.R. 165 (Bankr. E.D. Va. 2011).

[7] Bankruptcy Code § 365(n) provides that if a trustee or debtor-in-possession rejects an intellectual property contract between a debtor/licensor and a licensee, the licensee may elect to either treat the contract as terminated or retain its rights under the contract (including the right to enforce any exclusivity provision of the contract, but excluding any rights to specific performance) for the duration of the contract and any extension period available to the licensee under nonbankruptcy law.

executory licenses to U.S. patents was required to sufficiently protect the interests of U.S. patent licensees under Chapter 15 of the Bankruptcy Code and that the failure of German insolvency law to protect patent licensees was "manifestly contrary" to United States public policy.

Factual Background

Qimonda, a manufacturer of semiconductor memory devices headquartered in Munich, Germany, filed an insolvency proceeding in Munich (the "Munich Proceeding"), and Dr. Michael Jaffé ("Jaffé") was appointed as the insolvency administrator. Jaffé then filed a petition for recognition under Chapter 15 of the Bankruptcy Code in the United States Bankruptcy Court for the Eastern District of Virginia. The bankruptcy court recognized the Munich Proceeding as a foreign main proceeding.[8]

Qimonda owned thousands of patents, including U.S. patents. After being unable to sell small packages of the patents, Jaffé decided the best way to realize the value of the patent portfolio was to license the patents and renegotiate existing patent agreements to achieve greater royalties. Jaffé provided notice that Qimonda would not perform under their existing patent licenses pursuant to German Insolvency Code § 103, which provides that executory contracts are automatically unenforceable unless the insolvency administrator, in this case Jaffé, affirmatively elects to perform the contracts. German Insolvency Code § 103 does not provide the same type of protection that is available under Bankruptcy Code § 365(n).

Two U.S. patent licensees, Samsung Electronics Co., Ltd. ("Samsung") and Elpida Memory, Inc. ("Elpida") (the "U.S. Licensees"), responded to Jaffé's notice by asserting that they were entitled to the protections of Bankruptcy Code § 365(n). In an effort to convince the bankruptcy court that he did not intend to take advantage of the U.S. Licensees, Jaffé filed pleadings committing to re-license Qimonda's patent portfolio at a reasonable and non-discriminatory royalty to be determined through good faith negotiations or through arbitration.

The Bankruptcy Court's Decision

The court explained that the semiconductor industry is characterized by the existence of a "patent thicket," such that any given semiconductor device may incorporate technologies covered by a multitude of patents not owned by the manufacturer, and it is difficult, if not impossible, to identify all potential patents or design around each and every patented technology. As a result, semiconductor manufacturers must obtain licenses to many different patents prior to developing new technologies to avoid infringement claims.

Congress' included § 365(n) in the Bankruptcy Code to remove what had become an unintended burden on American technological development. The court explained that in the absence of appropriate cross-license agreements in the semiconductor industry, "design freedom" gives way to a "hold-up premium" because manufacturers must attempt to license

[8] The bankruptcy court later entered a supplemental recognition order making Bankruptcy Code § 365 applicable to the Chapter 15 proceeding. The provisions of Bankruptcy Code § 365 do not apply automatically in a Chapter 15 proceeding. Instead, a foreign representative or other party-in-interest must petition the court to apply § 365 pursuant to Bankruptcy Code § 1521.

Title search: Welcome to America, Now Go Away: The Chapter 15 Manifestly Contrary to Public Policy Exception

Also available as part of the eCourse
The Aftermath of Vitro; plus Taking an Appeal from a Bankruptcy Court's Order

First appeared as part of the conference materials for the
31st Annual Bankruptcy Conference session
"Welcome to America, Now Go Away—The Aftermath of the Vitro Case"