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INTELLECTUAL PROPERTY and PRIVATE INTERNATIONAL LAW

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First Report

TABLE OF CONTENTS

I.	Introduction.....	2
I.1	Creation and mandate of the Committee.....	2
I.2	The first meeting of the Committee in Lisbon (March, 2012).....	2
II.	The rationale behind the existence of the new Committee.....	2
II.1	Intellectual property and private international law: an initial survey.....	2
II.2	Previous projects and existing Principles: aims and possible outcomes of the ILA Committee.....	3
III.	International jurisdiction.....	3
III.1	General aspects of jurisdiction.....	3
III.2	Exclusive / subject-matter jurisdiction.....	5
III.3	Infringement jurisdiction.....	6
IV.	Applicable Law.....	7
IV.1	General rules.....	7
IV.2	Initial ownership.....	8
IV.3	Applicable law to contractual matters.....	9
IV.4	Law applicable to IP infringement.....	10
V.	Recognition and Enforcement of Judgments.....	11
V.1	Introduction.....	11
V.2	Judgments and effects.....	11
V.3	Verification of jurisdiction.....	12
V.4	Public policy and non-compensatory damages.....	13
V.5	Provisional and protective measures.....	13
VI.	List of new issues to be considered by the Committee.....	13

VI.1	Scope of intellectual property and related fields	14
VI.2	Lex mercatoria (or lex informatica) of international creative communities	14
VI.3	Arbitration	15
VI.4	Consumer transactions	16
VI.5	Position of Internet intermediaries	16
VI.6	IP protected goods in transit	17
VI.7	Security interests in IP and insolvency	17
VII.	The Charter of the Committee as the basis for its future work	17

Introduction

Creation and mandate of the Committee¹

A special committee under the auspices of the International Law Association ('ILA') entitled 'Intellectual Property and Private International Law' was created in November 2010.² The Committee aims to examine the current state of the legal framework concerning the protection of IP rights in the international sphere. In addition, the Committee also aspires to discuss some of the issues that have emerged after the adoption of legislative proposals. At the outset the members of the Committee agreed to keep the options regarding the possible outcomes of the Committee open (ie depending on the progress of the discussions, the Committee may adopt a resolution, recommendation, principles, model law or perhaps a draft text for an international treaty).

The first meeting of the Committee in Lisbon (March, 2012)³

The first meeting of the ILA Committee took place at the University of Lisbon (16-17 March 2012). The first day of the meeting was devoted to a comparative analysis of the legislative proposals concerning private international law aspects of IP. The members of the Committee discussed issues related to international jurisdiction to adjudicate IP-related disputes, problems related to the determination of the applicable law and challenges arising when a foreign judgment in an IP dispute has to be recognized and enforced. The members analysed (a) whether the application of the legislative proposals would eventually result in different outcomes and (b) in case there are any differences among the proposals, whether it is possible to find any balanced solution to resolve the controversies. Besides the comparative study, the Committee also discussed 12 legal issues that were proposed to be included in the agenda of the Committee. After careful consideration of expressed views, 7 issues were retained in the 'List of new issues' that are to be further examined by the Committee. In addition, the Committee also discussed the further coordination of the work. It was decided to establish more specialized sub-committees that would be in charge of more thorough investigation of questions inscribed in the 'List of new issues'.

The rationale behind the existence of the new Committee

Intellectual property and private international law: an initial survey

One of the projects underlying the work of the ILA Committee was a comparative study prepared for the 2010 Congress of International Academy of Comparative Law (IACL). Professor Toshiyuki KONO was appointed as a general reporter and conducted a study on the topic 'Intellectual property and private international law'. For this purpose a questionnaire containing 12 hypothetical case studies was prepared and distributed to 20 national reporters from various countries.⁴ These national reports provide for a valuable overview of positive laws in the respective countries. These 20 national reports together with the General Report are published in a separate volume⁵ and constitute a solid ground to carry on a further study under the auspices of the ILA.

¹ Information about the origins and the establishment by the ILA of the Committee.

² www.ila-hq.org/en/committees/index.cfm/cid/1037.

³ Information about the organization of the Committee, the activities leading to the Lisbon meeting and the details of the meeting.

⁴ Austria, Belgium, Canada, Croatia, France, Germany, Greece, Hungary, India, Italy, Japan, Korea, Netherlands, Portugal, Slovenia, Spain, Sweden, Switzerland, UK, and the US.

⁵ T Kono (ed), *Intellectual Property and Private International Law: Comparative Perspectives* (Hart, 2012).

Previous projects and existing Principles: aims and possible outcomes of the ILA Committee

Besides the IACL project, the work of the ILA Committee is based upon the outcomes of several previous international initiatives to regulate settlement of cross-border IP disputes. The first initiative was the so called ‘Hague Judgments project’ which was started in early 1990s by the US at the Hague Conference on Private International Law. The purpose of this initiative was to prepare an international treaty establishing harmonised rules on international jurisdiction and the recognition of foreign judgments. Following more than a decade of intense negotiations, the project basically failed, because major negotiating parties – principally the US and the EU – were unable to agree on underlying concepts as well as how to allocate court jurisdiction in IP disputes.

In an attempt to save the Hague negotiations, a special working group with an objective to draft more specific provisions regarding court jurisdiction in IP matters was created under the auspices of the American Law Institute (‘ALI’). Subsequently, the ALI Principles on Intellectual Property⁶ were adopted in 2007 at the meeting of the ALI General Assembly. The ALI Principles provide for a comprehensive set of rules concerning various issues on international jurisdiction, applicable law and the recognition of judgments in IP disputes. One of the focal objectives of the ALI Principles was to restrict possible jurisdictional grounds in cross-border IP disputes and to facilitate coordination and consolidation of the proceedings.⁷

Parallel to the ALI initiative, the Max Planck Institute in Munich initiated a project which published draft principles on jurisdiction in intellectual property in 2004. This academic initiative further developed into a follow-up project of the two Max Planck Institutes in Hamburg and Munich, the so-called ‘CLIP’ (European Max Planck Group for Conflict of Laws in Intellectual Property). Members of the CLIP working group consisted of six different countries on both sides of the Atlantic. Within five years the CLIP group drafted the so-called ‘CLIP Principles’ which, similarly to ALI, deal with international jurisdiction, applicable law as well as the recognition and enforcement of foreign judgments in IP matters. The CLIP Principles were finalised in 2011.⁸

Two more specialised working groups to investigate private international law problems relating to the cross-border aspects of IP rights were formed by legal academics in Japan and Korea. Their creation was inspired by legal developments across the Pacific and in Europe. The first group was initiated under the auspices of the ‘Transparency of Japanese Law Project’, with the intention of drafting a proposal of special rules dealing with private international law aspects of IP.⁹ Similarly to the ALI and CLIP Principles, the Transparency Proposal deals, inter alia, with grounds for general, special and exclusive jurisdiction in IP disputes, consolidation of claims and coordination of parallel proceedings; applicable law to IP infringement, licensing and other related issues as well as recognition and enforcement, and recognition of foreign judgments rendered in IP disputes. The second so-called ‘Waseda group’ was established by scholars in Waseda University with the objective of drafting a proposal on the jurisdiction and applicable law for the whole East Asian region. The Waseda working group closely cooperated with another group of scholars in South Korea.¹⁰ Joint Japanese-Korean Principles were jointly prepared by legal specialists from Japan and Korea.¹¹

International jurisdiction

General aspects of jurisdiction

The first issue discussed at the Committee meeting at Lisbon was related to the general aspects of international jurisdiction. In hearing cases with a foreign element, the first question is of justiciability – whether a court can exercise its powers over a particular dispute at all. One of the most important issues in IP-related cases is the potential impact of the principle of territoriality of IP rights on the exercise of international jurisdiction. Cognisant about existing substantial differences between positive

⁶ The American Law Institute, *Intellectual Property: Principles Governing Jurisdiction, Choice of Law and Judgments in Transnational Disputes* (Chestnut, ALI Publishers, 2008).

⁷ R Dreyfuss, ‘The American Law Institute Project on Intellectual Property: Principles Governing Jurisdiction, Choice of Law and Judgments in Transnational Disputes’, in S Leible, A Ohly (eds), *Intellectual Property and Private International Law* (Tübingen, Mohr, 2009) 15–30.

⁸ Available at www.cl-ip.eu.

⁹ www.tomeika.jur.kyushu-u.ac.jp.

¹⁰ A new private international law statute was adopted in South Korea in 2001. A German translation is available here: 70 *RabelsZ* (2006) 342–57.

¹¹ Korean scholars had also prepared another proposal dealing with intellectual property and private international law (hereafter referred to as the ‘KOPILA’ proposal).

laws of different countries, the members of the ILA Committee focused on solutions of the recently adopted proposals. In all these legislative proposals the drafters aimed at finding a forum that would be best suited to hear a cross-border IP case. However, different objectives and legal backgrounds affected the structure and core principles of each legislative proposal.

In order to avoid situations where courts assert jurisdiction over a case which may not be closely connected to the forum state, legislative proposals employ several different mechanisms. One of such legal tools is the **requirement of substantial connection** between the parties or the dispute and the forum state (Art 18(1) of the 2001 Hague Draft and Art 8(1) KOPILA). In order to avoid such overly broad adjudication authority, the 2001 Hague Draft provided for grounds of jurisdiction which are considered to be insufficient for the exercise of international jurisdiction. In other words insufficient grounds of jurisdiction (such as plaintiff's nationality or service of a writ to the defendant in the forum state) were considered as not proving the existence of substantial connection between the dispute/the parties and the forum state.¹² The reason why the separate list of insufficient grounds of jurisdiction was included in the Hague Draft is as following: Art 17 of the 2001 Hague Draft provided that courts can assert jurisdiction over the dispute under the domestic law of the forum state. Therefore, the drafters considered it vital to the maintenance of certain degree of foreseeability to limit the situations where the courts exercise jurisdiction over cases that do not have substantial relation to the forum state.

Based on similar considerations, subsequently adopted legislative proposals also contain special provisions that enumerate connecting factors that, if taken alone, are considered to be insufficient for a court to assert jurisdiction over the dispute (s 207 ALI Principles, Art 212 Joint Japanese-Korean Proposal, and Art 8(2) KOPILA). The list of grounds that are insufficient to assert jurisdiction are essentially the same among these three principles. On the other hand, such list of **insufficient grounds of jurisdiction** is not explicitly provided in the CLIP Principles and the Transparency Principles. However, the mere absence of such insufficient grounds does not necessarily mean that the drafters of the CLIP Principles or the Transparency Principles intended to allow the courts to have exorbitant jurisdiction. As far as the CLIP Principles are concerned, the drafting objectives as well as their background could better explain the approach adopted. Namely, the CLIP Principles aim to substitute and provide for improvements to the existing Brussels/Lugano framework where some explanations with regard to the exorbitant grounds of jurisdiction could be found in the jurisprudence of the ECJ. As for the Transparency Principles, some other provisions – namely 'exception based on public-interest policy (Art 109)' – empower the courts to exercise some degree of discretion in asserting jurisdiction.

One of the controversial issues discussed at the ILA meeting was related to the policy goals: should jurisdiction rules be drafted in a strict manner so as to favor legal certainty? Or should these rules remain flexible and leave the courts some room for discretion in deciding whether to assert jurisdiction over the case or not? These fundamental questions were closely related to slightly different approaches adopted in the legislative proposals. For instance, the 2001 Hague Draft allowed the court to decline jurisdiction in certain cases. Art 22 (entitled 'Exceptional circumstances for declining jurisdiction') of the 2001 Hague Draft resembles the *forum non conveniens* doctrine as it has been developed by courts of common law countries.¹³

Two Japanese legislative proposals also contain provisions granting the court discretion to decline jurisdiction over the case. Art 211 of the Joint Japanese-Korean Principles refer to the so called '**special circumstances**' test which allows the court to dismiss the whole or part of the action if it finds that there are some special circumstances which would impinge upon the fairness of the proceedings to the parties or obstruct due process or expedient trial. The 'special circumstances' doctrine was developed by Japanese (and Korean) courts and also found its place in newly adopted rules on international jurisdiction. The drafters of the Transparency Principles were also aware of the significance of this doctrine to the actual practice of Japanese courts. However, the members of the Transparency working group were slightly more reserved towards the width of the special circumstances test. Therefore Art 119 of the Transparency Principles adopt a much narrower form of the 'special circumstances' and refer to '**public-interest policy**' which would allow the Japanese courts to decline jurisdiction only in those situations where the trial 'manifestly more appropriate' in foreign states.

A closer comparison reveals a notable development in the legislative proposals for the adjudication of multi-state IP disputes. Namely, Transparency Principles and the Joint Japanese-Korean Proposal were drafted in the light of the ongoing reform of international civil procedure rules in Japan,

¹² *ibid* at 78–79.

¹³ *cf Gulf Oil Corp v Gilbert*, 330 US 501 (1947).

thus these two proposals still contain some rules granting some discretion to the courts in deciding on the existence of international jurisdiction. Yet, the need to assure greater certainty and efficiency in adjudication multi-state IP infringement facilitated a move towards replacement of discretionary rules with **rules on coordination**. This is most obvious in the CLIP and the ALI Principles. These two legislative proposals do away with Art 22 of the 2001 Hague Draft; instead providing for certain rules on court discretion add a set of jurisdictional provisions for coordination of multi-state IP proceedings (Arts 2:701-2:706 of the CLIP Principles and ss 221-223 of the ALI Principles).

Exclusive / subject-matter jurisdiction

Historically, IP rights developed from a privilege based systems whereby exclusive rights to exploit certain invention or print publications was granted by sovereign kings. Together with the evolution of the society and technologies the individual privilege system became institutionalised: legal protection for the fruits is afforded if certain requirements stipulated in the law are met. The idea that IP rights are limited within the territories of sovereign states remains influential, at least insofar as the registered IP rights are concerned. In context of international court jurisdiction, the controversial question is whether a court can hear claims related to foreign IP rights and, if so, how should courts deal with the question of existence, registration or validity of foreign IP rights. Since the practice of courts differs from state to state the legislative proposals aim to find an approach which would strike the balance between the interests of various stakeholders (states, IP right-holders, society etc).

Matters included in the rules governing exclusive (or subject matter) jurisdiction

Each of the following Principles establish different matters that fall under the scope of respective jurisdiction rules. The ALI Principles refer to ‘a proceeding brought to obtain a declaration of invalidity’ (s 213(2)). CLIP Art 2:401 adopts a more explicit approach stipulating that exclusive jurisdiction applies to ‘disputes having as their object a judgment on the grant, registration, validity, abandonment or revocation of a patent, a mark, an industrial design or any other IP right’. Art 209 of the Joint JK Proposal establishes exclusive jurisdiction over ‘any dispute arising out of acquiring, registering, disclaiming or revoking and validity of intellectual property rights’. Art 103(1) of the Transparency Proposal applies to ‘actions concerning the existence, registration, validity or ownership of intellectual property rights’, but rejects exclusive jurisdiction rules for any of these issues. The 2001 Hague Draft supports the approach taken by the CLIP Principles and the joint Proposal in this respect.

The notion of exclusive jurisdiction adopted by all three sets of Principles (excluding the Transparency Proposal) only covers the aspects of foreign IP rights litigation which are typically included in each of the rules: namely the IPR subsistence, scope, validity and registration. It excludes disputes that can affect some of those issues but where the real object of the litigation is different. This is notwithstanding the fact that the disputes may result in decisions that can be the basis for changes in the records of the registries of a State, namely *inter alia* IPRs first ownership and entitlement issues, as well as transferability and assignability matters and the contractual transfer of ownership. In fact, it is true that the Transparency Proposal mentions those last issues together with the validity matters. As for the subsistence, scope, validity and registration notions included in exclusive jurisdiction rules, they relate *inter alia* to the definition of the various categories of protected works, the originality, novelty and legal requirements, the granting, the fixation, the registration (including abandonment or revocation) and the scope of protection.

In addition to determining the matters that fall within their subject matter jurisdiction, each set of Principles also determines different procedural actions that fall under their exclusive jurisdiction rules. S 213(1) of the ALI Principles refers to ‘a declaratory judgment [...] to declare a registered right invalid’, and Section 213(2) refers to ‘a proceeding brought to obtain a declaration of the invalidity’ of a registered IPR. Art 2:401 of the CLIP Principles stipulates that exclusive jurisdiction applies to ‘disputes having as their object a judgment on the grant, registration, validity, abandonment or revocation of a patent, a mark, an industrial design or any other IP right protected on the basis of registration’ when raised as a principal claim or counterclaim. Art 209 of the Joint Proposal states that exclusive jurisdiction applies to ‘[a]ny dispute arising out of acquiring, registering, disclaiming or revoking and validity of IP rights’, except when such questions arise in a context other than ‘in a context of a preliminary or incidental question’. By contrast, as previously discussed, the Transparency Proposal governs ‘actions concerning the existence, registration, validity or ownership of intellectual property rights’ (Art 103), but does not establish any exclusive jurisdiction rules for these actions regardless of how they are raised. The 2001 Hague Draft supports the specific approach taken by the CLIP Principles. However, the 2005 Choice of Court Convention, adopts a much less specific term for judgments on IP rights, and refers only to them as ‘a ruling on the validity of an intellectual property

right'. For the present purposes and for simplicity, the following remarks will adopt the terms 'validity claims' or 'validity proceedings', 'inter partes effects' and 'validity issues incidentally raised'.

Effects of judgments concerning foreign IP rights validity

Each set of Principles determines differently the effects of the judgments which concern the validity of foreign registered IPRs. According to s 211(2) of the ALI Principles, 'the adjudication of the validity of registered rights granted under the laws of another State is effective only to resolve the dispute among the parties of the action'. Art 2:401(2) of the CLIP Principles stipulates that 'the decisions resulting from [...] disputes' on validity or registration of registered IPRs that arose in a context other than by principal claim or counterclaim 'do not affect the validity or registration of those rights as against third parties'. This rule shall be coordinated with Art 4:202 of the same Principles on 'validity and registration', according to which 'recognition and enforcement of a foreign judgment may not be refused on the ground that in the proceedings before the court of origin the validity or registration of an IP right registered in a State other than the State of origin was challenged, provided that the recognition and enforcement produces effects concerning validity or registration only with regard to the dispute between the parties'. Art 103(3) of the Transparency Proposal stipulates that 'judgments invalidating IP rights prescribed under foreign law shall only be effective as between the parties to the action'. Art 209(2) of the Joint JK Proposal states that 'the decisions resulting from those disputes' which arose in 'the context of preliminary or incidental questions' 'do not affect later claims'. The comments to the Joint JK Proposal clarify that 'even for the parties in such dispute, the decision rendered by the court that has exclusive jurisdiction derived from these Principles ought to prevail over that rendered by any other court, and the decisions in preliminary questions do not affect the subsequent proceedings'. The limitation of the effect of the judgment to the parties of the proceeding with respect to the action at issue is similar to the one adopted by the 2001 Hague Draft.

Infringement jurisdiction

Territoriality

All sets of Principles are based on the premise that IPRs infringements are torts. International jurisdiction in tort cases is usually grounded in the place of the *harmful act* as well as at the place of the produced *effect*. However, the CLIP Principles do not apply such a distinction in IP matters due to the territorial structure of IP rights, which does not allow for the establishment of jurisdiction in a State where the right is not protected. In fact, the CLIP Principles determine the place of the infringement activity as always coincident with the place of the infringement results, due to the territorial nature of IPRs (Art 2:202 states that '[A] person may be sued in the courts of the State where the alleged infringement occurs or may occur...'). However, the CLIP Principles do mitigate the territorial approach by adopting a more 'effects-oriented approach'. Under this approach, the infringing conduct that has taken place in a certain State (and so can base the infringement jurisdiction in that State) is also required to have been directed to that State. In contrast, all other sets of Principles adopt the jurisdiction criteria of general torts for IPRs infringement cases, namely by granting jurisdiction to the courts at the place of the infringement activity or at the place of the infringement results, the latter being hypothetically different from the former.

Jurisdiction criteria and scope of court's authority

The ALI Principles, the Transparency Proposal and the Joint JK Proposal all adopt the so-called ubiquity theory, which provides for jurisdiction at the place of the action, and at the place of the result of the infringement. With respect to the court at the place of the action, this court's authority is unlimited in scope under the ALI Principles, but is limited under the Transparency and Joint JK Proposals. The place of the action does not provide a sufficient forum to exercise jurisdiction in cases of ubiquitous infringements under the Transparency Proposal, unless the results are maximized in Japan, and under the Joint Proposal, the place of the action does not provide a sufficient forum to exercise jurisdiction in cases of multistate infringements, unless the major part of the alleged infringer's activities occurred in the forum state.

To be more precise, the ALI Principles establish that where the court is situated in the place where the defendant has substantially acted, or taken substantial preparatory acts, to initiate or to further an alleged infringement, the court has jurisdiction and its jurisdiction extends to claims

respecting all injuries arising out of the conduct, wherever the injuries occur. Thus, the ALI Principles provide for a centralised jurisdiction in favour of the courts at the place of action, independent of the means utilised to perpetrate the infringement, and therefore not only in cases of ‘ubiquitous infringements’, (this wording is not adopted by the ALI Principles). This solution allows for consolidation of jurisdiction at the place from which the infringement occurred in its entirety, such as in the country where the infringing content was first published or uploaded or where the infringing goods were manufactured.

The Transparency Proposal establishes in Art 105 that Japanese courts shall have jurisdiction over an infringement claim if the infringing act took place or is to take place in Japan. The extent of jurisdiction of the court at the place where the infringing act took place or is to take place is established by the first part of Art 105, which states that infringement jurisdiction should only extend to the territory of the State courts of which have jurisdiction over the infringement. However, the Japanese Transparency Proposal poses an exception to the general rule, which can be recalled as an “escape clause”, because under the second part of Art 105, Japanese courts shall decline jurisdiction in cases of ‘ubiquitous infringement’ claims. Therefore the defendant can escape the Japanese jurisdiction.

The Joint JK Proposal poses the principle that infringement jurisdiction shall vest in the courts in all countries where the alleged infringement occurs. The Joint JK Proposal limits the scope of jurisdiction of the courts of the State where the activities occurred to the injuries occurring in that State, as this is the country to which the activities of the defendant were ‘directed’ (Art 203(2)). However, Art 203 provides for an escape clause according to which when the injuries occur in multiple States, regardless of the sequence of those injuries, the person whose infringement activities gave rise to those injuries may be sued in the courts of the State in which the major part of his or her activities that initiated the alleged infringement occurred. So, if the defendant did not perpetrate the major part of his/her activities in the forum state, then he/she cannot be sued there. Finally, the Comments to Art 203 clarify that the ‘state in which the major part of his or her activities ... [occur]’ means the State in which the essential and substantial part of those activities occur. International jurisdiction with regard to infringements occurring in multiple states is then granted to the courts in the country where the ‘major part’ of the activities initiating the infringement took place. This court can deal with all the claims arising out of that infringement irrespective of the fact that they are located outside the forum state.

The 2001 Hague Draft seems to support the limited approach taken by the Transparency Proposal and the Joint Proposal. Art 10(1)(a) states that a plaintiff may bring an action ‘in the courts of the State – in which the act or omission that caused the injury occurred’. This is then limited by the requirement in (2); namely that the ‘activity’ complained of must have been directed to that State by the defendant, or have been engaged in by the defendant frequently or significantly in that State, *and* that the claim arises out of that activity, *and* the overall connection of the defendant to that particular State means it is reasonable for the defendant to be sued in that State. Furthermore, Art 10(3) provides an escape rule, in that the defendant cannot be sued in the place of action ‘where the defendant has taken reasonable steps to avoid acting in or directing activity into that State’.

Applicable Law

Applicable law rules for IP disputes in ALI, CLIP, Transparency, KOPILA and Joint JK Proposal are comparably similar. However, a few more or less important differences remain. They are thoroughly analyzed in the research paper presented in the 1st meeting of the ILA committee on IP and PIL in Lisbon and shortly introduced below.

General rules

As a **general rule**, all analyzed proposals have retained a territorial approach in the disputes over IP rights (s 301 ALI; Arts 3:102, 3:601, 3:701 CLIP; Art 19 KOPILA; Art 301 Transparency; Art 301 Joint JK). That is, IP rights remain restricted to the territory of the state granting these rights. However, because of ambiguous notion of the *lex loci protectionis* rule normally applied in IP cases, the drafters have chosen different wordings for the applicable law rules. For instance, CLIP suggested referring to the law of the ‘country for which protection is sought’, in the ALI proposal registered rights were subject to the law of the ‘country of registration’, whereas Transparency group chose to refer to the country ‘where the right was granted’. Also, in some proposals different rules are proposed for registered and unregistered rights. Namely, ALI, KOPILA and Joint JK proposals subjected registered rights to the law of the registering country; yet, unregistered rights are regulated by the law of the country for which protection is sought. Meanwhile CLIP and Transparency retained the same rule for both registered and unregistered.

It is often argued that the *lex loci protectionis* is implied from the national treatment provision as first provided in the Berne Convention¹⁴ and its application in practice is broadly accepted. Its application in the EU has been recently codified in the Rome II Regulation¹⁵. At the same time the differences in formulation also reflect the differing naming and understanding of the rule in the national legal practice. The analysis shows that *lex loci protectionis*, or ‘protecting country’ rule, still causes misunderstandings.

Initial ownership

The determination of applicable law to **initial ownership** differs significantly and is one of the controversial issues. Regarding initial ownership to *unregistered* IP rights (mainly, copyright), one group of proposals (CLIP and Transparency) retains a strict territorial approach and subject initial ownership in these cases to the same *lex loci protectionis* rule; the CLIP proposal suggests certain limited exceptions in case of co-ownership and employment situations (Arts 3:201, 3:401-3:402 CLIP; Art 305 Transparency). The other group (ALI, KOPILA and Joint JK) opts for a single-law approach (s 311-313 ALI; Art 24 KOPILA, Art 308 Joint JK). They however suggest different connecting factors for it (the law of creator’s residence or the law of the place of creation). They also formulate to some extent different connecting factors for co-ownership and employment situations.

These differences are caused by different national practice on the issue. Whereas most countries adhere to *lex loci protectionis* also for the initial ownership issue (eg Germany¹⁶, Austria¹⁷, Belgium¹⁸, Japan¹⁹, and South Korea²⁰), at least France²¹ and the USA²² have applied the *lex originis* rule when determining initial ownership for unregistered rights. The issue of applicable law to co-ownership situations has been little addressed in practice. Meanwhile the applicable law to works created in employment or similar relationship (eg in case of cinematographic films) has led to especially heated discussions because national substantive copyright laws in such cases vest initial ownership in different persons (employee in a continental law tradition and employer in a common law tradition)²³. The analysis of the suggested rules shows that none of them meet the interests of territoriality (the main interest of states) and legal certainty (the main interest of the user) in a sufficiently balanced way. If these rules are to be merged into a single one, it is suggested that another compromise-based alternative should be searched for.

The applicable law rules for initial ownership in case of *registered* IP rights (eg patents, registered trademarks) demonstrate more unity between the groups. In all proposals the initial ownership is subject to the *lex loci protectionis* rule, even if with slightly varying formulations (s 311 ALI; Art 3:201 CLIP; Art 305 Transparency; Art 24 KOPILA; Art 308 Joint JK). This corresponds to the existent legal practice in most countries. However, the proposals differ in regard to applicable law to initial ownership in employment relationship (ie employee’s inventions). For instance, although most proposals suggest *lex contractus* rule in this case, the Transparency group adopts *lex loci protectionis*.

The applicable law to employment relationships has been subject to widely varying rules (eg *lex contractus* in Belgium²⁴, *lex loci protectionis* in China²⁵, a mixed approach in Austria²⁶, or

¹⁴ Art 5(2) Berne Convention for the Protection of Literary and Artistic Works.

¹⁵ Art 8 Rome II Regulation.

¹⁶ Supreme Court decision of 2 October 1997 – I ZR 88/95 *Spielbankaffaire*, MMR 35 (1998), for a thorough analysis of German practice see Birkmann, *Die Anknüpfung der originären Inhaberschaft am Urheberrecht* (Nomos Verlagsgesellschaft 2009) 121-42.

¹⁷ See Art 34 Austrian PIL Statute (IPRG). Although its wording resembles *lex fori* rule (‘where the protection is sought’), in practice it is construed as *lex loci protectionis* rule, see Supreme Court, 17 June 1980 *GRUR Int* 1986, 728 – *Hotel-Video*.

¹⁸ Art 93(1) of the Belgian CPIL.

¹⁹ See Supreme Court decision, 17 October 2006, *Minshû* Vol. 60, No. 8, 2853 (‘Hitachi’).

²⁰ Art 24 of South Korean Private International Law Act.

²¹ See Supreme Court decision of 22 December 1959 – *Société Fox-Europa v Société Le Chant du Monde*, 28 *RIDA* 120 (1960); Court of Appeal of Paris decision of 14 March 1991 – *Almax International*, II JCP, Éd. G, No 21780 (1992).

²² See *Itar-Tass Russian Agency v Russian Kurier, Inc.*, 153 F.3d 82, 91 (2nd Cir. 1998) (although it sets a ‘most significant relationship’ rule it would arguably lead to the same results as *lex originis*); interestingly, see 104A US Copyright Act subjects the ownership of so called ‘restored works’ to the law of the country of origin.

²³ For an extensive study on initial ownership issues see A Birkmann, *Die Anknüpfung der originären Inhaberschaft am Urheberrecht* (Nomos Verlagsgesellschaft 2009) 104.

²⁴ Art 93(2) Belgian CPIL.

inventor's principle employment place (as the main rule) under the European Patent Convention²⁷). At the same time, the applicable law in collaborative research situations has not been much addressed in the legal practice yet. Thus the CLIP suggestion of a special applicable law rule for initial ownership in cases of collaborative research should be further discussed in the Committee. As regards the employee's inventions, most groups suggest the *lex contractus*. This rule is likely to ensure more legal certainty indispensable for the worldwide exploitation.

Applicable law to contractual matters

Another issue is what law applies to the issue of **transferability** (ie whether IP rights are transferable and to which extent). All proposals have opted for the territorial approach (s 314 ALI; Art 3:301 CLIP; Art 305 Transparency; Art 19 KOPIA; Art 309(1) Joint JK). Although the wording of suggested rules slightly differ, they are likely to result in the application of the same *lex loci protectionis* rule. Only the Joint JK proposal suggests an additional provision allowing the adjudication of the transferability issue under the same rule as the initial ownership issue (the latter is subject to a single-law approach in the Joint JK proposal). The national state practice is however unitary and recognizes *lex loci protectionis* as the only rule applicable to this issue (eg France²⁸, Germany²⁹, Belgium³⁰, USA³¹).

As far as applicable law to IP **contracts** is concerned, all proposals acknowledge party autonomy as the main rule (s 315-316 ALI; Arts 3:501-3:507 CLIP; Arts 306-307 Transparency; Art 23 KOPIA; Art 307 Joint JK). The rules, however, differ in setting presumptions in case the choice of law by parties is absent. Here, different proposals show preference to assignor's residence (ALI), assignee's residence (KOPIA, Joint JK), *lex loci protectionis* or a combination of several connecting factors (Transparency, CLIP). CLIP, in addition, sets a special applicable law rule to employment contracts (as distinguished from initial ownership in employment relationships). Different points of attachment in cases when parties' choice is absent reflect the difficulty in finding the most appropriate law to such cases. The diverging solutions could be seen also in regional and national state practice. For instance, in Rome I Regulation it is subject to the characteristic performance rule (with several escape clauses)³², in Switzerland – to the law of the grantor's habitual residence³³, in Germany it is decided on case by case basis³⁴.

The analysis demonstrates that each of the factors may be most relevant to some situations; however, no single one is suitable to all of them. Thus, it is worth considering a more flexible approach in determining the applicable law. For instance, CLIP group first proposes a list of factors allowing the determination with which country – that of assignor's residence or assignee's residence – the dispute is more connected. Second, two presumptions (*lex loci protectionis* and assignor's residence) are suggested as escape clauses.

The law applicable to **security rights in IP** is regulated rather differently in the proposals (s 317 ALI; Arts 3:801-3:803 CLIP; Art 308 Transparency; Art 32 KOPIA). ALI regulates just proprietary aspects of security contracts and subjects them to the law of the protecting country. CLIP follows the same approach with regard to proprietary aspects; in addition it subjects contractual aspects to a separate set of rules (the choice of law by parties, closest connection rule, grantor's habitual residence rule). In the Transparency proposal 'security interests in intellectual property rights' (ie both proprietary and contractual aspects) are subject to the law of the country granting the right. Meanwhile the KOPIA proposal subjects security contracts to the same rules that apply to assignment and license contracts. Joint JK Proposal does not specifically address the issue at all.

²⁵ Since there is no special rule on initial ownership in employment situations, it seems to be governed by a general rule on initial ownership which refers to 'the law of the place where protection is sought', see Art 48 China Law on the Laws Applicable to Foreign-related Civil Relations has been adopted on 28 October 2010.

²⁶ Art 34(2) Austrian PIL Statute (IPRG). It seems to subject, at least *inter partes* effects, to the law governing the employment relationship whereas *erga omnes* effects are governed by *lex loci protectionis*. This provision has been little applied in practice and its relevance has been much discussed.

²⁷ Art 60 European Patent Convention.

²⁸ Court de cassation, première chambre civile [Cass. 1e civ.], May 28, 1991, Bull. civ. I, No. 172 (*Huston v La Cinq*). In that case, however, the French high court avoided any choice-of-law analysis, and applied French law as a mandatory rule.

²⁹ German Supreme Federal Court, 02.10.1997, *GRUR* 1999, 152 – *Spielbankaffaire*.

³⁰ Belgian CPIL Art 94(1)(4).

³¹ *Corcovado Music Corp v Hollis Music, Inc*, 981 F2d 679 (2d Cir 1993) (assignability of copyright renewal term was determined under US law as the law of protecting country).

³² Art 4 of the Rome I Regulation (EC).

³³ Art 122(1) Swiss CPIL see also Swiss Supreme Court, 22 April 1975, *GRUR Int* 1977, 208 – '*EFASIT*'.

³⁴ Landgericht Düsseldorf, 10 June 1999, *GRUR Int* 1999, 772 – '*Virusinaktiviertes Blutplasma*'.

Law applicable to IP infringement

Party autonomy in IP infringement cases is allowed in all proposals, however, to a different extent (s 302 ALI; Art 3:606 CLIP; Art 304 Transparency; Art 20 KOPILA; Art 302 Joint JK). Most proposals limit party autonomy to infringement-related issues (ALI, Transparency, KOPILA). CLIP suggests the most narrow rule and allows party autonomy only in respect of remedies, whereas the Joint JK proposal seems to allow it in respect of all issues (though with *inter partes* effects only). Until now, party autonomy has been excluded or barely exercised in some states' practice (eg Germany³⁵ and Austria³⁶) as well as under the Rome II regime³⁷. In some other countries it has been allowed to a certain extent (eg Switzerland³⁸ or China³⁹). The groups have decided that a limited party autonomy could contribute to the efficiency of enforcement proceedings. The further analysis comes to the conclusion that although such a limited party autonomy is reasonable for most cases, an extension of it could be useful and justified for at least ubiquitous (online) copyright infringement cases.

A *de minimis* rule is found only in the CLIP and Joint JK proposals (Art 3:602 CLIP; Art 305 Joint JK). The Transparency proposal contains a somewhat similar market effect rule (Art 301). CLIP *de minimis* rule is formulated as a substantive law rule and allows finding an infringement only when there is a substantial conduct or substantial effects in the respective country. At the same time Transparency proposal suggests that IP infringements are subject to the law of the country where exploitation results occurred or are to occur. The rules, however, have different purposes. Whereas the CLIP rule is intended to prevent the finding of an infringement in countries with minimum conduct or effects (ie limit the number of applicable laws), the Transparency group, in contrary, seeks to limit the territoriality principle. The Transparency market impact rule is supposed to make it possible to enforce under local law foreign infringements with local effects.

The suggested *de minimis* rules may have some similarities with the so called *de minimis* rule which was suggested for satellite broadcasting case (the law of a specific country cannot be applied if the reception of signals is minimum in that country). Also, they are likely to be inspired by the 'market effect' rule as suggested for online trademark infringements in 2001 WIPO Recommendation (in online trademark cases, the 'use' of a sign can be established only in the country where market effect is found)⁴⁰. The need and reasonability of a rule of this type will be subject for further discussions in the Committee.

Most proposals suggest very similar rules for **ubiquitous infringements** (s 321 ALI; Art 3:603 CLIP; Art 302 Transparency; Art 21 KOPILA; Art 306 Joint JK). In general, these (mainly online) infringements are subject to a single law with the closest connection leaving a possibility for parties to claim a different national law (and, thus, retreat back to the territorial approach). More significant differences between the proposals concern the exact formulation of the rule ('closest' or 'close' connection), nature of the rule (mandatory or voluntary), types of infringements covered (worldwide or also multi-state, online or also offline), issues covered (whereas initial ownership is excluded in most proposals, transferability is included at least in the Kopila and Joint JK proposals), the list of connecting factors, and the exact wording of the "retreat to territoriality" exception. In contrast, the Transparency proposal suggests a different rule: it subjects multistate infringements to a single law of the country where maximum exploitation results are located ('maximum economic impact' rule).

A special applicable law rule in cases of **secondary liability** is suggested only in the CLIP proposal (Art 3:604 CLIP)⁴¹. It proposes a two-layer rule. First, 'ordinary' secondary infringements are subject to the same law governing the main infringement. Second, certain secondary (online) conduct (specifically defined in the rule) is subject to a single law of the country where the center of gravity of the conduct can be located (with the condition that this law meets certain minimum substantive law

³⁵ See Supreme Court decision of 17 June 1992 – I ZR 182/90 – *Alf*, 24 *IIC* 539 (1993); Supreme Court decision of 02 October 1997 - I ZR 88/95 – *Spielbankaffaire*, *MMR* 35 (1998).

³⁶ P Rummel (ed), *Kommentar zum allgemeinen bürgerlichen Gesetzbuch* B II, T 6 (Manz, 2004) para 4.

³⁷ Art 8(3) of Rome II Regulation.

³⁸ Art 110(2) of the Swiss PIL.

³⁹ Art 55 of the 2010 Law of the People's Republic of China on the Laws Applicable to Foreign-Related Civil Relations.

⁴⁰ Art 2 of Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet.

⁴¹ Art 305 Joint JK Proposal also mentions contributory infringement, however, due to difficulties in understanding the English translation of the rule, it is not thoroughly analyzed here.

standards). In other proposals the issue is not specifically addressed because of its highly complicated nature. Some other proposals retain the same *lex loci protectionis* for these cases⁴².

Recognition and Enforcement of Judgments

Introduction

In the current context of increasing globalization of economic relationships and exploitation of IP rights, fostering international enforceability of judgments is necessary to ensure effective and adequate protection of IP rights.⁴³ Provisions in this field are decisive to obtain effective cross-border relief when litigating multi-state infringements in the courts of a single country and in general against infringers who are not domiciled or have no assets in the forum country. They also influence the choice made by prospective litigants between a multiplicity of available fora. In particular, recognition and enforcement may be decisive with a view to: ensure the enforceability abroad of an injunction ordering a party to desist from an infringement in the territory of several countries; enforce a foreign ruling on damages in the country where the infringer's assets are located; and to deny the losing party the possibility to bring new proceedings involving the same cause of action and between the same parties in the courts of another State, to the extent that the new forum country recognises the *res judicata* effect (or claim or issue-preclusion) of the decision rendered abroad.

Due to the limitations of the existing international conventions and the lack of global agreements, the rules applicable to the recognition and enforcement of foreign judgments concerning IP matters depend typically on the law of the country where the enforcement is sought. In some states, the conditions applicable may be different depending on which is the country of origin of the judgment, since international treaties on recognition and enforcement are usually subject to reciprocity. In the EU the unified recognition and enforcement rules have decisively contributed to facilitating cross-border adjudication of IP disputes but such system applies only to judgments given by a court of another Member State.⁴⁴

The lack of progress in the development of international conventions in this area especially after the failure of the Hague Conference of Private International Law to adopt an international convention on jurisdiction and foreign judgments in civil and commercial matters has influenced the development of academic projects in different regions of the world.⁴⁵ In particular the four sets of Principles considered in this report devote a specific part to the recognition and enforcement of foreign judgments in IP matters. An overview of their common features and main differences is of the utmost importance as basis of the future work of the Committee. All projects acknowledge the well-known conceptual distinction between recognition and declaration of enforceability. That distinction does not affect the conditions applicable since the grounds to deny recognition are the same which apply when the declaration of enforceability is at issue. The only additional requirement is that in order to be enforceable, a judgment must be enforceable in the State of origin

Judgments and effects

The term judgment, as in the CLIP Principles, is to be understood for these purposes in a very broad sense,⁴⁶ as covering, among others, appealable judgments, provisionally enforceable orders or judgments rendered in default of appearance. It includes also orders for the payment of money, orders

⁴² Eg ALI suggests in its comments that the 'facilitation of infringement' is governed by the same law as the primary infringement, see Comment h to sec. 301 ALI.

⁴³ P De Miguel Asensio, 'Recognition and Enforcement of Judgments in Intellectual Property Litigation: the CLIP Principles', in J Basedow, T Kono and A Metzger (eds), *Intellectual Property in the Global Arena* (Mohr Siebeck, 2010) 239-92; and M Trimble, 'When Foreigners Infringe Patents: an Empirical Look at the Involvement of Foreign Defendants in Patent Litigation in the US', 27 *Santa Clara Computer & High Technology Law Journal* (2011) 499-549.

⁴⁴ J Fawcett and P Torremans, *Intellectual Property and Private International Law* (Oxford University Press, 2nd ed, 2011) 946-55.

⁴⁵ A Kur, 'International Hague Convention on Jurisdiction and Foreign Judgments: A Way Forward for IP?' *EIPR* (2002) 175; and R Dreyfuss, 'The ALI Principles on Transnational Intellectual Property Disputes: Why Invite Conflicts?' 30 *Brooklyn Journal of International Law* (2005) 819. See also Y Oesterreicher, *Recognition and Enforcement of Foreign Intellectual Property Judgments: Analysis and Guidelines for a New International Convention* (2004) (unpublished JSD dissertation, Duke University School of Law), available at eprints.law.duke.edu/archive/00000700/01/oesterreicher.pdf.

⁴⁶ P Nygh and F Pocar, 'Report. Preliminary Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters', Prel Doc No 11, August 2000, <www.hcch.net> 98-9.

for the transfer and delivery of property, orders regulating the conduct of the parties, and orders declaring the rights and liabilities of the parties, including negative declarations such as declarations on non-infringement of IP rights, and monetary and non monetary judgments.⁴⁷

In practice, all four sets of Principles lead to similar results allowing for recognition and enforcement of final judgments as well as of provisional measures. Yet, the ALI Principles adopt the term ‘final’ to designate a judgment that indeed can also be of a non-final nature, in conformity with the US internal system. Furthermore, the Transparency Proposal’s relevant rule (Art 403(2)) acknowledges the possibility of making enforcement of non-final judgments conditional on the provision of security by the party seeking enforcement. This possibility is understood as compatible with the CLIP Principles as well. The 2001 Hague Draft also supports the recognition and enforcement of non-final judgments (Art 23A). The relevant rules of the CLIP Principles and Joint Proposal grant judicial discretion to a court to stay recognition and enforcement of foreign non-final judgments when they are subject to review in the rendering State, each using the word ‘may’ in the relevant provisions. The 2001 Hague Draft uses the same discretionary terminology in Art 25(4). The ALI Principles go even further, mandating that courts ‘should’ stay the proceeding pending appeal.

All four sets of Principles avoid the adoption of the term *res judicata*. However, the ALI Principles and the CLIP Principles explicitly clarify that the effects attributed to a foreign judgment throughout the recognition and enforcement procedures should be no greater than the effects of the judgment in the rendering State, under the doctrine of extension of effects. So the effects of a foreign judgment should be determined by the *lex originis*. In particular this law determines when the judgment is enforceable.

Yet, several derogations are established, including three of particular significance. First, the CLIP Principles and the ALI Principles make it clear that enforcement of foreign judgments takes place according to the *lex fori*, and therefore the requested state can limit the enforcement of foreign judgments or injunctions if these are contrary to its public policy, or if they establish remedies that are unknown in the legal system of the forum state. Second, preclusive effects that are against the right to a fair trial should also be denied recognition. Third, the effects of injunctions or judgments should be limited especially with regard to the Internet context and in light of the need to respect the territorial nature of IPRs: this limitation derives from specific rules (CLIP Principles on the scope of injunctions) or from the rules on partial recognition and enforcement of judgments (severability).

Verification of jurisdiction

Among the grounds that justify non-recognition of foreign judgments, the review of the international jurisdiction of the judge of origin plays an important role in most legal systems. By virtue of that requirement, the enforcing court reviews whether the original court exercised jurisdiction in a manner considered appropriate in the recognizing country.⁴⁸ All four sets of Principles considered adopt basically the so called standard of equivalence approach (or ‘mirror-image principle’), under which to be recognized and enforced abroad a foreign judgment should have been rendered by a court that would have had jurisdiction according to the rules of each set of principles or that established its jurisdiction according to rules equivalent to the ones of the principles.

The interpretation and scope of exclusive jurisdictional rules on IP litigation are decisive not only directly to allocate competence to the courts but also indirectly because due to their mandatory character they may decisively influence non recognition of foreign judgments. A judgment which falls foul of the provisions on exclusive jurisdiction does not benefit from the system of recognition and enforcement under the Principles. In this regard, all sets of Principles present the following similarities. First, they allow recognition and enforcement of foreign judgments on registered IPRs over ownership and entitlement issues that are not covered by the exclusive jurisdiction rules, even though the recognition and enforcement of such decisions requires changes in the records of the registries of the State that granted the IPR at stake. Second, they allow for recognition and enforcement of foreign judgments rendered in infringement or contractual proceedings where the IPR validity issue was incidentally raised and addressed by courts sitting in a State that was not the country of registration, provided that the decision resulting from such dispute does not affect the validity or registration of those rights as against third parties, or as against the same parties to the dispute at stake in subsequent proceedings, thus having no binding effect beyond the proceeding concerned.

⁴⁷ M Trimble, ‘Cross-Border Injunctions in US Patent Cases and their Enforcement Abroad’ 13 *Marquette Intellectual Property Law Review* (2009) 331-69.

⁴⁸ P De Miguel Asensio, *supra* n 43 at 271-80.

Public policy and non-compensatory damages

All sets of Principles refer to the public policy exception as a ground to refuse recognition and enforcement of foreign judgments. The wording of the procedural public policy provisions is in general very restrictive to limit its role as a ground for non-recognition to situations in which the specific proceedings leading to the foreign judgment were manifestly incompatible with fundamental principles of procedural fairness of the requested State. Hence, the existence of significant differences between the procedural law of the country of origin and that of the country in which enforcement of the decision is sought is not determinative to a refusal of the enforcement. Given the exceptional and restrictive understanding of public policy, only under exceptional circumstances can procedural differences between jurisdictions or procedural defects in foreign litigation be a reason to refuse enforcement of foreign decisions on IP. For instance, enforcement of a civil judgment based on a jury verdict should not be in principle regarded as a breach of fundamental process in countries that do not use civil juries. Also, differences with respect to the availability of discovery devices between the country of origin and the country in which enforcement is sought should not be an obstacle to the enforcement of the judgment inasmuch as such differences do not decisively affect in the case concerned fundamental procedural fairness and do not undermine essential principles of the system in which enforcement is sought.⁴⁹

Particularly noteworthy as regards differences in substantive law is the variability of principles concerning the function and purposes of the liability system. The ALI and the CLIP Principles as well as the Joint Proposal introduce a specific ground for non-recognition of money judgments on non-compensatory damages. These provisions are to a certain extent modelled on Article 11 Hague Convention on Choice of Court Agreements of 2005. Its rationale is that also in these situations public policy as a ground to refuse recognition should be restrictively constructed and therefore only applied in situations in which the recognition or enforcement of the foreign judgment is manifestly incompatible with the public policy of the enforcing country. Hence, the prevailing view is that recognition and enforcement of a judgment should only be refused if, and only to the extent that, the judgment awards damages that do not compensate a party for actual loss and exceed the amount of damages (plus costs relating to the proceedings) that could have been awarded by the courts of the State where enforcement is sought including the costs relating to the proceedings if the same events had been adjudicated in that country.⁵⁰

Provisional and protective measures

Under the ALI Principles and the CLIP Principles, provisional measures adopted by courts that do not have the jurisdiction to hear the merits cannot be recognised or enforced abroad, in line with the approach adopted by the proposal to recast the Brussels Regulation (Art 2 of the Commission Proposal), by the European instruments on unitary industrial property rights and by the Hague Draft Convention. The CLIP Principles clarify that this restrictive approach does not preclude the application of a more liberal approach i.a. in a context of regional integration or under a convention regime, according to the *favor recognitionis* principle. In contrast, the Joint Proposal is silent on the point, although the explanatory notes seem to adopt the same requirement by stating that 'it is meaningful to clarify that extraterritorial enforcement is available only for provisional or protective measures rendered in the state that has the jurisdiction to hear the merits'. The Transparency Proposal does not adopt this requirement, which can lead to different results.

Under the CLIP Principles, the Transparency Proposal and the Joint Proposal, provisional or protective measures adopted *inaudita altera parte* cannot be recognised or enforced abroad. Although the ALI Principles do not expressly exclude the recognition and enforcement of *ex parte* provisional measures, the same conclusion can be reached under § 403 (1)(a)-(d). This provision ensures the respect of procedural guarantees, including proper and timely notice and an opportunity to be heard.

List of new issues to be considered by the Committee

During the first meeting of the ILA Committee, a number of new issues to be further analysed were brought to the agenda. The following sections provide for a brief overview of the issues that were retained in the agenda. Special reports were on two issues, ie *lex mercatoria* and position of Internet

⁴⁹ F Blumer, 'Jurisdiction and Recognition in Transatlantic Patent Litigation' 9 *Texas Intellectual Property Law Journal* (2001) 399.

⁵⁰ D Moura Vicente, 'La propriété intellectuelle en droit international privé', *Recueil* 335 (2008) 424.

intermediaries, were presented at the Lisbon meeting. Therefore, these two are discussed in more detail.

Scope of intellectual property and related fields

The proposals prepared by working groups in the US, Europe, Japan and Korea share a common objective: to provide rules concerning the settlement of cross-border IP disputes. Albeit IP rights form the axis of these proposals, considerable differences remain with regard to the applicability of these proposals to neighboring areas of law. During the panel discussion these following areas were identified: publicity rights, personality rights, competition law, geographical indications, broadcasting, domain names, technology transfer agreements, genetic resources or traditional knowledge. In the light of the fact that the scopes of application *ratione materiae* of the legislative proposals vary, it was decided that the Committee should include the question of defining the scope of fields that are related to IP into the agenda.

Lex mercatoria (or lex informatica) of international creative communities

The specific conflict of law issues related to free or open source software and creative communities have not been addressed by the ALI, CLIP, Transparency, KOPILA and Joint JK Proposal. Free and open source communities have their historical roots in the 1980ies when some first small projects, the most prominent being Richard Stallman's GNU project founded in the US, started to create free software programs. Today GNU/Linux is used on a worldwide basis, especially in the markets for smart phones ('Android' is a Linux derivative), on servers and in the embedded sector, eg as a control systems for machines etc. Linux undoubtedly is the most prominent free software. However, there are many more comparable projects, eg Samba, MySQL, Mozilla Firefox or Apache.

Despite the differences in the origins and goals of the mentioned and other open source projects, all projects use free or open source licenses for the organization of their communities. The most prominent license is the GNU General Public License⁵¹ used for GNU/Linux and many other free software projects. The success of the open source development and distribution model has triggered the development of comparable communities in other sectors of media and culture. The most prominent initiative is Creative Commons. A second well-known 'open content' initiative is Wikipedia.

The interesting issue of open source and open content licenses for international lawyers is the international composition of the projects. Many of the communities are literally spread around the world with programmers (or authors) situated in the US, Europe, East Asia and other regions of the world.⁵² Typically, the exclusive rights in the works (or parts of the works) remain with the authors contributing to the project (or with the employer). As a consequence, each user of an open source program who is interested in redistributing the software (and therefore is in need of a license) must conclude a license contract, according to the terms of the applicable open source license, with a number of licensors situated in a number of different jurisdictions.⁵³

This raises the question of which law shall be applicable to these license contracts. If one applies the law of the licensor, as suggested as basic presumption or fall-back provision by § 315(2) ALI Principles, Art 3:502(3) CLIP Principles and Art 306(2) Transparency Proposal, the laws of different jurisdictions would be applicable for a piece of software which appears for the licensee as one homogeneous product. Another solution would be to apply the law of the licensee, as suggested as presumption by Art 307(2) Joint Japanese-Korean Principles. Under this solution the user of an open source program could rely on the applicability of one single law when using the program. However, this approach would shift the uncertainty to the side of the licensor because it would now be his burden to apply a multitude of applicable laws if his user community is international. A third solution would be to apply the law of the protecting country as *lex contractus*. This approach would foster legal certainty for users because they could rely on their national law when making use of the software or

⁵¹ See www.gnu.org/licenses/gpl-3.0.en.html.

⁵² See eg the statistics for the Linux distribution Debian at www.perrier.eu.org/weblog/2010/08/07#develop-countries-2010. The statistic consists of a list of 873 active developers in 2011, originating from 53 jurisdictions.

⁵³ There is some controversy among US legal scholars whether the licenses should be interpreted as bilateral contracts or as unilateral license grants. For an interpretation as a contract under US law see Azzi, *University of Illinois Law Review* (2010) 1271, 1283 et seq.; Gomulkiewicz, 36 *Houston Law Review* (1990) 179, 189 et seq.; McGowan, *University of Illinois Law Review* (2001) 241, 289 et seq.; Wacha, 21 *Santa Clara Computer and High Technology Law Journal* (2005) 451, 456, 473 et seq. For a unilateral license see Moglen, 'Enforcing the GPL I', moglen.law.columbia.edu/publications/lu-12.html; Kumar, *University of Illinois Journal of Law, Technology and Policy* (2006) 1. In Germany, the majority opinion characterizes open source licenses as bilateral contracts, see Jaeger/Metzger, *Open Source Software* (2011), N°171 et seq. for further references.

contents. But the approach has the disadvantage inherent to all ‘mosaic’ theories in private international law.

Some open source licenses try to evade this problem by explicit choice of law clauses.⁵⁴ Such clauses are acceptable for an open source community if all or at least most contributors are residents of one jurisdiction. However, for a truly international community of programmers it will be hardly acceptable to regulate their legal relationships in accordance with the law of the habitual residence of one part of their community. Another strategy for the international usability of open source or open content licenses is the creation of national versions of the licenses which comply with the requirements of specific jurisdictions. The most advanced project following this policy is Creative Commons International.⁵⁵ Creative Commons has created national license versions for more than 50 jurisdictions. Although it may look helpful at first sight to have locally adapted versions of the licenses, using these national license versions may even worsen the legal difficulties of creative communities (see the following illustration). Also, the legal costs of such a solution are extremely high and may hardly be borne by typical non-profit communities.

Regular private international law principles are based on the idea that international legal relationships should be governed by the law of a state (or the law of several states) to which the parties involved and the facts of the case have the closest connection. But this approach, as has been shown, leads to unsatisfactory results in case of international open source or free content communities. A more tailor-made solution reflecting the specific needs of open source communities could be based on the theory of *lex mercatoria*.⁵⁶ Developers working together in international programming communities are not just international by composition. They are also characterized by a remarkable level of social homogeneity. Moreover, a common understanding of how open source or free software should be developed and distributed has prevailed the fast growth of the “community” in the last 20 years. A concrete expression of these community-wide principles is the common feature of the different open source licenses. Although there are more than 100 open source licenses currently used in market, the basic features of these license follow the same pattern. Given this background one could argue that open source communities have developed a body of independent rules of law which are accepted in the community.

The question of whether a *lex mercatoria* approach is advisable for open source and other creative communities depends primarily on the evaluation of the practical difficulties caused by traditional private international law principles. It is argued in the paper presented at the 1st meeting of the Committee that the specific characteristics of open source communities require the elaboration of a novel and tailor-made regime of conflict rules. One possible solution could be to apply the open source community principles as governing contract law and to detach the formation, validity, warranty and liability, third party rights and other contractual issues from any given state law. The theory of *lex mercatoria* could serve as a theoretical basis for such an approach. Interpretation, gap-filling and review of the contract could be effected by reference to the UNIDROIT Principles.

Arbitration

One of the issues that was not addressed in the most of the legislative proposals (except the Joint Japanese-Korean Proposal) is related to the arbitrability of IP disputes. During the first meeting of the Committee arbitration-related issues received considerable attention of the Committee members. During the discussions, a number of problems have been identified: arbitrability of IP disputes; validity of arbitration agreement, potential conflicts with the sovereignty of states to decide upon the validity of IP rights; law governing arbitration; parallel proceedings as well as multi-party arbitration of IP disputes. It was almost unanimously agreed that the arbitration should be maintained as one of the main issues to be dealt with in the future work of the ILA Committee.

⁵⁴ An example for such a clause may be found in Section 11 Mozilla Public License Version 1.1 (‘This License shall be governed by California law provisions (except to the extent applicable law, if any, provides otherwise), excluding its conflict-of-law provisions.’).

⁵⁵ See Maracke, ‘Creative Commons International: The International License Porting Project – Origins, Experiences, and Challenges’ 1 *JIPITEC* (2010) 4.

⁵⁶ The ‘new law merchant’ has been discussed since the 1960ies, see Fouchard, *L’Arbitrage commercial international* (1965) 423 et seq; Fragistas, ‘Arbitrage étranger et arbitrage international en droit privé’, *RCDIP* (1960) 1 et seq; Goldman, ‘Frontières du droit et lex mercatoria’ *APD* 9 (1964) 177 et seq; Kahn, *La vente commerciale internationale* (1964) 365 et seq. From the more recent literature see Berger, *Formalisierte oder „schleichende“ Kodifizierung des transnationalen Wirtschaftsrechts* (1996); de Ly, *De lex mercatoria* (1989); Osman, *Les principes généraux de la lex mercatoria* (1992); Fernández Rozas, *Ius Mercatorum* (2003).

Consumer transactions

Consumer related transactions were one of the aspects that most of the legislative proposals did not address. This was mainly due to the fact that consumer transactions have been subject to a rather elaborate regulation at the national law level in many states. However, the members of the Committee decided consumer transactions to the extent that they are related to IP issues should be further analysed by a special subcommittee.

Position of Internet intermediaries

Given that the activities, facilities and services provided by intermediaries may result in infringements of IP rights and especially may support or facilitate infringements by others, the determination of intermediary liability in connection with the activities of the users of their services and the possibility to bring claims against the intermediaries themselves has become a crucial issue for the protection of IP in the Internet. Current developments regarding IP infringement disputes on the Internet illustrate the importance of claims against intermediaries⁵⁷. Furthermore, the liability of Internet intermediaries has been identified as an area that requires specific substantive law rules as illustrated among others by the safe harbour provisions of the DMCA in the US and the limitations of the e-commerce Directive in the EU. However, in this area significant divergences remain among legal systems⁵⁸ and hence applicable law issues have become of great practical importance. Additionally, this is in an evolving area in which the scope of enforcement of IP rights must especially be balanced against the protection of other fundamental rights⁵⁹.

In sharp contrast with the evolution of Internet law in most major industrialized countries that have adopted specific provisions regarding the (non) liability of Internet intermediaries the position of intermediaries has not been the subject of a similar attention from the perspective of private international law⁶⁰. However, the activities and services of those intermediaries having potentially global reach or impact pose particular challenges from the perspective of private international law.⁶¹ Potential liability of intermediaries linked to the activities of the users of their services can be deemed an issue concerning the determination of persons who may be held liable for acts performed by another person. From a comparative perspective, the criterion that the law applicable to indirect or secondary liability is the law that governs the main infringement has obtained significance acceptance. In the EU as a result of the combination of Art 15(a) and (g) and 8(1) Rome II Regulation, the law applicable to a non-contractual obligation arising from an infringement of an IP right governs also the determination of persons who may be held liable for acts performed by them and liability for the acts of another person. Therefore, under the Rome II Regulation the view prevails that the law of the country for which protection is claimed is determinative to establish both direct and indirect or secondary liability and also the law applicable with regard to the limitations or exemptions from liability for Internet intermediaries.⁶² In the US a similar trend may be identified as illustrated by the approach taken by the ALI Principles. Under § 301 ALI Principles, the law that governs the determination of infringement applies not only to establish direct infringement but also to determine to what extent activities facilitating infringement may be regarded as infringement.⁶³

Given the multinational and even global scope of the activities of intermediaries, concerns have been raised about the burden and unpredictability of subjecting the liability of intermediaries to the law of each country of protection.⁶⁴ Art 3:604(1) CLIP Principles contains an innovative provision leading in some cases to the application of a single law to Internet intermediaries. A number of issues concerning a provision like that seem to require further discussion such as the scope of the

⁵⁷ For instance, in the EU see ECJ Joined Cases C 236/08 to C 238/08 *Google France and Google*, and Case C 324/09 *L'Oreal*; in the US, see *Viacom International v YouTube Inc* 2010 WL 2532404 (SDNY 23 June 2010) and *Tiffany (NJ) Inc v eBay*, 576 F Supp 2d 463, 484 (SDNY 2008).

⁵⁸ LJ Oswald, 'International Issues in Secondary Liability for Intellectual Property Rights Infringement' 45 *American Business Law Journal* (2008) pp 247-82, pp 248-49.

⁵⁹ See ECJ, Case C 70/10 *Scarlet Extended* with regard to the position of Internet access providers; Case C 360/10, *SABAM* in connection to providers of hosting service (in particular, an online social networking platform); and Case C-461/10, *Bonnier Audio and others*.

⁶⁰ R Matulionyte, "An Analytical Comparison of the Applicable Law Rules in the ALI, CLIP, Transparency, KOPIA and Joint JK Proposals", at section 9.

⁶¹ Fawcett and Torremans, *supra* n 44 at 920.

⁶² J Drexler, 'Internationales Immaterialgüterrecht' in *Münchener Kommentar zum Bürgerlichen Gesetzbuch*, 5th ed, Vol. 11, (CH Beck, Munich, 2010) at 1448-49.

⁶³ § 301 ALI Principles, comment h).

⁶⁴ G Dinwoodie, R Dreyfuss and A Kur, 'The Law Applicable to Secondary Liability in Intellectual Property Cases', 42 *Journal of International Law and Politics* (2009) 205-9.

beneficiaries and the determination of the connecting factor that makes possible the application of a single law. Under the ALI and other sets of Principles, recourse to a single law can also be the result of the application of the specific provisions on ubiquitous infringement. The assessment of the interaction between a specific provision on secondary infringements and the rules on ubiquitous infringements – such as § 321 ALI Principles – in the light of the applicability of the latter to the activities of intermediaries is necessary to determine if a specific provision on the law applicable to Internet intermediaries would be appropriate and the approach to be taken among the possible alternatives.

Additionally, a number of issues regarding jurisdiction, coordination of proceedings and enforcement of judgments have been identified where the application to Internet intermediaries of the rules so far proposed in the four main sets of principles drafted in this area raise significant challenges that seem to justify the further work of the Committee in this field. Issues that could be considered include the applicability of the special ground of jurisdiction over infringement claims and the provisions on preliminary measures to claims against intermediaries. The interaction between criminal proceedings and civil enforcement could also be the focus of attention. Finally, the extraterritorial effect of measures against intermediaries and the enforcement of such measures abroad may also be of particular interest.

IP protected goods in transit

Goods in transit appeared to be one of the controversial issues as well. Some members drew the attention of the Committee that ‘goods in transit’ is a topic that is more related to public law, international trade or private international law, rather than IP. Besides, some members of the ILA Committee were of the opinion that various measures such as measures related to the disposition of goods in transit are significant in practice due to difficulties to effectively enforce IP rights. However, also during the First ILA Committee meeting it became obvious that there is a need to further examine legal ramifications of measures affecting IP-protected goods in transit.

Security interests in IP and insolvency

There was no discussion and most of the ILA Committee members agreed on the need to conduct further study concerning security rights in IP.

The Charter of the Committee as the basis for its future work⁶⁵

It was agreed that we need to adopt a sort of charter which clarifies the mission and activities of the committee. It will be discussed and adopted in Sofia.

⁶⁵ The Charter to be adopted in Sofia should be included here (other possibility would be to include it at the beginning of the Report).