

IP and Applicable Law in Recent International Proposals:

Report for the International Law Association

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Abstract: The report compares applicable law rules to intellectual property (IP) disputes as proposed in the recent international projects (ALI, CLIP, Transparency, Kopila and Joint Japanese-Korean proposals). Namely, it identifies the differences among proposals, reveals the underlying reasons of differing rules, looks at how particular issues have been until now solved at international and national levels, and finally, overviews the main arguments for and

against particular solutions suggested in the proposals. This report was presented in the 1st meeting of the Committee on Intellectual Property and Private International Law of the International Law Association (15-17 March 2012, Lisbon) and is expected to contribute to the merge of current international proposals into a single international initiative.

Keywords: Intellectual property, applicable law, conflict of laws, *lex loci protectionis*, *lex originis*, initial ownership, ubiquitous infringement, party autonomy

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A. Introduction

- 1 During the last years several proposals dealing with private international law (PIL) and intellectual property (IP) have been made public, namely the Principles by American Law Institute (ALI),¹ proposal by the European Max Planck Group on Conflict of Laws in Intellectual Property (CLIP),² Japanese “Transparency” proposal,³ Principles by Korean Private International Law Association (KOPILA)⁴ and Joint Proposal drafted by Members of the Private Interna-

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tional Law Association of Korea and Japanese Waseda University Global COE Project (Joint JK).⁵

- 2 The goal of this study is to compare the abovementioned projects in order to facilitate their merge into a single international proposal. The current report focuses on applicable law rules to IP. It consists of eight chapters covering the most important issues of applicable law, namely, (1) the main applicable law rule (*lex loci protectionis*); (2) initial ownership and (3) transferability issues; (4) the rules to IP contracts;

- (5) party autonomy in infringement cases; (6) the de minimis provision; and the rules for (7) ubiquitous infringements as well (8) secondary infringements.
- 3 Each issue is discussed from four aspects. First, the rules in all proposals are compared by highlighting their differences. Second, the rationale underlying the different provisions is outlined. When possible, it is taken from written comments by the drafters or from individual consultations. In other cases, the underlying reasons of particular solutions are searched for in the legal practice of relevant jurisdictions. Third, the international legal situation is overviewed in order to see where the proposals stand in the context of current legal practice in different countries. Fourth, the main arguments for and against the suggested rules are summarized, mostly as they are discussed in legal doctrine or, if no significant discussion has been identified, from the perspective of the author. More attention is devoted to the issues on which the proposals differ (e.g. initial ownership, secondary infringement), whereas some highly controversial issues are less analyzed if the proposals suggest similar rules (e.g. ubiquitous infringement rule, transferability issue).

GENERAL RULES

B. Main rule

Sec. 301 ALI; arts. 3:102, 3:601, 3:701 CLIP; art. 19 Kopila; art. 301 Transparency; art. 301 Joint JK.

- 4 All proposals, as a general matter, maintain the territorial approach and suggest very similar applicable law rules to IP disputes. It could be generally called “*lex loci protectionis*.” Some exceptions to this approach and other differences still remain.

I. Differences

- 5 First, although Transparency proposal, similar like other proposals, follows the territorial approach in regard to most issues, it suggests a loosened approach to territoriality with respect to IP infringement. The latter is subjected to the law of the place of the results of exploitation (or a “market impact” rule) (art. 301 Transparency). It deviates from the strict territorial approach, which stipulates that the state law governs only the conduct occurring in that state. Rather, according to the market impact rule, the law of a particular state A will govern conduct occurring in state B if that conduct has (real or potential) effects in the state A; and *vice versa*, the law of the state B will not be applied to the conduct occurring in its own territory if that conduct does not have market effects there.

- 6 Further, although all proposals seem to suggest very similar (if not identical) applicable law rules, their formulations slightly differ. Some proposals distinguish between registered and unregistered rights: the former is subject to the law of the “state of registration” whereas the latter is governed by the law of the “state for which protection is sought”⁶ (sec. 301(1) ALI, art. 19 Kopila and art. 301 Joint JK). Differently, the CLIP Proposal subjects *all* IP rights to the law of the state “for which protection is sought.” Similarly, Transparency proposal subjects all rights (at least as far as issues related to a right as such are concerned) to the same rule; however, it is formulated in a unique way. It refers to the law of the state “which grants the protection” (art. 305 Transparency). This is meant to avoid the ambiguity of the notion “*lex loci protectionis*” and cover both the *lex loci protectionis* and the state of registration rules.⁷
- 7 Different terminology is used for the above described rules. The CLIP Proposal uses “*lex loci protectionis*” when referring to the “law of the country for which protection is sought.” Joint JK Proposal covers under “*lex loci protectionis*” both the country “for which protection is sought” (as in CLIP) as well as the country of registration.⁸ The latter two rules are called “territoriality” in the ALI Proposal.⁹ Also, although ALI subjects unregistered rights to the law of the state “for which protection is sought” (like CLIP), in its comments ALI group refers to “affected market” as a usual point of attachment when the law of the protecting country is applied.¹⁰ In this way, the ALI approach comes closer to the “place of the results of exploitation” rule as found in the Transparency proposal. It is most likely that these differences in terminology would have no significant effects in practice. The agreement on the common definition of such basic concepts as “*lex loci protectionis*” or “territoriality” is, however, important.

II. Rationale

- 8 The reasons for the market impact rule and a loosened approach towards territoriality, as adopted in the Transparency proposal, can be traced in the Japanese court practice. The Japanese Supreme Court formulated a strict approach to territoriality in the BBS case¹¹ and reiterated it in the Card Reader case.¹² In the latter case, the defendant situated in Japan was producing the items covered by the U.S. patent with the purpose of distributing them in the USA (the item was not patented in Japan). The court defined territoriality in a strict way: “the principle of territoriality in relation to patent rights means that a patent right registered with each country is to be governed by the laws of the relevant country with regard to issuance, transfer, validity and the like thereof and such patent right can come into force only within the territory of the relevant coun-

try.” Accordingly, it rejected the application of the U.S. law in respect of conduct (production) occurring in Japan since no patent was granted in Japan. The court argued that the application of the U.S. law would impinge the territoriality principle of IP rights and would thus violate the public policy of Japan.¹³ Such a strict territoriality approach, however, was met controversially by legal scholars. For instance, some argued that the court had run into confusion between different concepts of the territoriality principle in private international and public law.¹⁴ Keeping this in mind, the drafters of the Transparency proposal have suggested the market effect rule as an alternative solution.¹⁵

- 9** The next question concerns the reasons of proposing two distinctive rules for registered and unregistered rights, namely country of registration for the former and country for which protection is sought (or “country of protection”) rule for the latter. In other words, does the country of registration rule lead to different results than the country of protection rule if applied to registered rights? It seems that in most cases the results will be the same and the country of registration rule is just a more straightforward rewording (or variation) of the country of protection rule.¹⁶ On the other hand, in Japanese legal practice the approach exists that these two rules in some cases do not coincide. Some scholars suggest that a “country of protection” may refer to different states (e.g. country which grants the protection or country where right holder raises a claim even if the laws do not grant the protection, i.e. *lex forum*).¹⁷ Also, according to the Joint JK proposal, it is “assumed” that the country of registration is the same as the country of protection, however, this presumption can be rebutted.¹⁸ In order to avoid the ambiguous *lex loci protectionis* rule and the confusion that the usage of both *lex loci protectionis* and country of registration rule may cause, the Transparency proposal uses the expression “the law of the country granting the right,” which represents a combination of the two concepts.¹⁹

III. International context

- 10** It is often assumed that territoriality and *lex loci protectionis* are accepted in most state legal practice in a similar (if not the same) scope and, thus, the analyzed proposals merely reconfirm this. The picture, however, is more colorful than that.
- 11** First of all, it is worth noting that IP law is new in many jurisdictions worldwide (especially in developing countries) and, naturally, they often have no special PIL rules to IP disputes or practice related to it. Then, most countries which have certain IP traditions treat IP rights as territorial; however, there are also a few countries which have adopted a univer-

sal approach (e.g. Portugal, Romania and Greece).²⁰ Even between countries that adhere to the territorial approach there is no unitary notion of it. Some countries stick to a traditionally very strict territoriality principle which does not allow courts to adjudicate disputes over foreign IP rights. Because of this (and other) reasons courts would adjudicate only disputes over local IP rights and simply apply *lex forum* (thus, no applicable law rules are needed).²¹ Others have since recognized that the territoriality principle does not preclude international jurisdiction in at least disputes over foreign copyrights.²²

- 12** Countries that allow the adjudication of foreign IP disputes, often apply *lex loci protectionis* rule. Some commentators argue that the *lex loci protectionis* rule can be derived from art. 5(2) of the Berne Convention for the Protection of Literary and Artistic Works (Berne Convention),²³ however, no agreement on this issue exists.²⁴ Similarly, there is no agreement whether *lex loci protectionis* can be derived from the national treatment provision as implemented in the Paris Convention for the Protection of Industrial Property (Paris Convention)²⁵ or Agreement on Trade Related Aspects of Intellectual Property Rights²⁶ (TRIPS).²⁷ In national jurisdictions it is rarely implemented as a statutory rule (Switzerland²⁸), and in some countries it is established only through court practice (e.g. Germany²⁹). It is often not clearly distinguished from other similar rules like *lex forum* (e.g. Austria,³⁰ China,³¹ Taiwan³²). Furthermore, the same *lex loci protectionis* rule (or “country for which protection is sought”) may be understood differently. In Germany it essentially refers to the country that grants the protection, whereas in Japan a broader approach can be identified.³³ Also, in some countries “*lex loci protectionis*” and “territoriality” concepts are used interchangeably (U.S., UK), whereas in others a clear line is drawn, at least on a dogmatic level (e.g. Germany).³⁴ Some states also apply other rules to IP disputes. For instance, the law of country of registration is applied for registered industrial property rights (e.g. Portugal).³⁵ Other countries do not have any special applicable law rules to IP disputes and thus general tort applicable law rules (most often – *lex loci delicti*) apply (e.g. UK,³⁶ Netherlands,³⁷ U.S.³⁸). In the U.S., *lex loci delicti* is often used interchangeably with *lex loci protectionis*.³⁹
- 13** Regarding the scope of *lex loci protectionis*, it has been differing from country to country. In some countries all issues (putting aside initial ownership and transferability) have been subject to *lex loci protectionis* (Austria,⁴⁰ Belgium,⁴¹ Germany,⁴² Italy,⁴³ Switzerland,⁴⁴ South Korea,⁴⁵ China⁴⁶). In other countries it covers only proprietary issues (existence, scope, duration, termination, etc.), whereas infringement-related issues (illegal conduct and remedies) have been subject to general tort applicable law rules such as *lex loci delicti* (e.g. U.S.,⁴⁷ UK,⁴⁸ France,⁴⁹ Portugal⁵⁰). It is argued that, although *lex loci protectionis* and

lex loci delicti are different from a doctrinal point of view, the practical outcome of the two approaches is mostly the same.⁵¹ This, however, has proved to be not true in Japan. Here, according to the established court practice, injunctions are subject to the law of the country of protection (or registration), whereas damages are subject to the tort applicable law rules.⁵² In the famous Card Reader case this led to the application of different laws with respect to injunctions (U.S. law) and damages (Japanese law).⁵³ Finally, it is important to note that the Rome II Regulation has harmonized the application of *lex loci protectionis* at least for non-contractual (or infringement-related) issues in the EU, though it remains unclear if it also covers proprietary aspects.⁵⁴ At the international level no harmonization has been reached yet and the scope of the *lex loci protectionis* remains divergent.

- 14** Regarding the market impact rule (as suggested in the Transparency Proposal), there is no known jurisdiction where such rule was explicitly applied as the main applicable law rule in IP cases. It has been known, however, in other fields of law. For instance, a similar “effect theory” was initially applied as a rule of applicable law in antitrust and unfair competition law.⁵⁵ Certain variations of the market effect rule have been already proposed or applied for certain special IP problems. In copyright law, a similar *de minimis* rule was proposed for infringements concerning cross-border satellite broadcasting.⁵⁶ The so called “targeting” doctrine has been developed for copyright infringement cases in the U.S. In essence, it grants U.S. courts a jurisdiction over alleged copyright infringement having a foreign element if the U.S. audience is the intended target of that conduct.⁵⁷ Simultaneously, a so-called “market impact” rule was suggested in the 2001 WIPO Recommendation for use of trademarks on the Internet.⁵⁸ It has been successfully applied in online trademark cases,⁵⁹ and was also gradually adopted by some European courts in online copyright cases. In addition, it is interesting to note that in its initial drafts, ALI also suggested a market effect rule as a main rule for IP cases. This approach was later abandoned in favor of a more traditional territoriality-based approach. Still, when commenting on the applicable law rule to unregistered rights (i.e. “country for which protection is sought” rule), ALI suggests that “[t]he usual point of attachment for determining infringement of these rights therefore will be the countries where the right owner’s market for the work has been affected.”⁶⁰ Thus, the market effect rule is not an entirely new one, though had little acceptance in practice until now.

IV. Discussion

- 15** There is no need here to analyze the relevance of *lex loci protectionis* for IP disputes, since apart from minor differences in wording, all proposals have

adopted it. Below, two issues on which the agreement is lacking will be shortly discussed: (1) a different treatment of registered and unregistered rights and (2) whether it is reasonable to treat IP *infringement* differently from IP right *as such* (or proprietary issues) and subject the former to the market effect rule (as proposed by the Transparency group).

- 16** The distinctive treatment of registered and unregistered rights may have some advantages. It is true that *lex loci protectionis* (or the law of the country “for which protection is sought”) is not an entirely clear concept, and courts may have difficulties in applying it especially in those countries where it is new and there is not much practice in international IP litigation. “Country of registration” is a more straightforward notion, so it may bring more legal certainty at least in disputes over registered rights. However, this clearer concept can not be applied to unregistered rights (obviously because there is no registration), and the states would still have to live with the not entirely clear notion of *lex loci protectionis* (or find clearer wording – see below). The other problem of the differentiated treatment of registered and unregistered rights is the need for two different rules, which makes a complicated applicable law system even more complex. Also, the relationship between those two rules may remain unclear – is it the same rule worded differently or are these two different rules with different content?
- 17** An alternative solution could be to find another wording, e.g. by referring to “the law of the granting state” as suggested in the Transparency proposal. It eliminates an unclear concept of *lex loci protectionis* and merges both rules under a single concept. This could lead to more legal certainty. However, it requires abandoning the formulation “for which protection is sought,” which is already implemented in some national statutes (e.g. Switzerland, China), clearly established in some states’ court practice (e.g. Germany) and widely accepted in doctrine. The adoption of a new concept on the international level would require some countries to change their established practices, which could be done only if there is a very strong need. Also, the adoption of a new notion would still maintain the danger of it being interpreted differently in different jurisdictions. Thus, the clarification of contents of the *lex loci protectionis* (e.g. in comments) seems to be a more preferred option than the overall abandonment of this notion.
- 18** The other question is whether it is reasonable to subject the IP infringement to the market impact rule, while leaving the IP right *as such* to be governed by *lex loci protectionis*. It is true that the market impact rule could provide a different solution than the one found in the Card Reader case. Market impact rule allows the application of the law of the affected country despite where the conduct that causes those

effects occurs. In the Card Reader case, this would have meant the application of U.S. law for the copies made in Japan, since they are later exported to the USA and thus affects the U.S. market. One could argue that in IP cases the place of conduct is irrelevant since the object is intangible (different than in case of real property) and the economic interests that underlie IP rights are violated where the relevant market is harmed.⁶¹

- 19 On the other hand, one should keep in mind that the *lex loci protectionis per se* does not imply such strict territoriality as suggested by the Japanese Supreme court and does not prevent solving the Card Reader case in some other way. For instance, if the case were solved under secondary infringement rules as applied in the USA, UK or Germany, U.S. law would be applied to the infringement. As a general rule, secondary infringement is governed by the law that governs the primary (direct) infringement.⁶² It is an acknowledged exception to territoriality principle.⁶³ If the production in Japan with a purpose of exportation to the U.S. were treated as a contributory act facilitating illegal sale in the U.S., U.S. law could apply with respect to the production act that occurs in Japan. This would leave *lex loci protectionis* intact and would lead to the similar (if not the same) result that the suggested market effect rule intends to reach.
- 20 What is more important, the market impact rule, as proposed in the Transparency proposal, does not merely solve the problem in the Card Reader (and similar) cases. More than that, it means a significant shift away from the territoriality principle and ultimately, a change of the scope of the protection of IP rights. Firstly, it requires an extraterritorial application of a state law. The state A law will govern foreign conduct that has certain effects on the market of state A. For sure, such extraterritorial application of IP statutes is not entirely new. For instance, certain extraterritorial practices have been developed by U.S. courts in trademark⁶⁴ and copyright cases.⁶⁵ However, these practices have been criticized by commentators as a unilateral export of strong U.S. IP policies to other countries.⁶⁶ As the opposition against ever-rising IP protection seems to be growing in academic fields at least in the U.S. and Europe,⁶⁷ it is doubtful whether such extraterritorial application of laws shall be promoted in PIL instrument.
- 21 Secondly, the market impact rule would mean that the law of the particular state would not govern the conduct that occurs in its territory but does not (directly) affect its market. This would effectively limit the scope of the protection under IP laws. Such approach is not entirely new either. For instance, in several jurisdictions secondary infringements are not governed by the law of the country where the secondary conduct occurred but rather by the law

that governs a primary infringement, i.e. where the infringing conduct actually affected the market.⁶⁸ However, the market impact rule would go further than that. As a matter of principle, in order to establish an infringement of e.g. copyright, it must be proven that conduct (e.g. reproduction) is sufficient and there is no harm in the market (e.g. through distribution). However, if the market effect rule is applied, the mere reproduction in the country is not sufficient to apply the country's law if no market effects are felt there (e.g. if copies are made for exportation purposes and not for a local market). As another example, in the case of broadcasting, an emission of signals in the country would not be sufficient to apply the law of that country if no signals are received by the public of that country.⁶⁹ Whether such a shift of scope of protection is reasonable is a question of policy. However, the scope of protection can be better harmonized through a substantive law instrument rather than through applicable law rules.

- 22 In addition, it is questionable how effective it would be to subject an infringement issue to the law of a country other than the one that governs all other issues (i.e. apply *dépeçage*). First, it would make the determination of law more complicated. Second, the existence and scope of protection is closely related to the infringement issue: an infringement can be found only in the country where the right exists. Overall, the application of market impact rule to IP infringements may lead to far reaching – more negative than positive – consequences than one may expect.

C. Initial ownership

Secs. 311-313 ALI; arts. 3:201, 3:401-3:402 CLIP; art. 305 Transparency, art. 24 Kopila, art. 308 Joint JK

I. Differences

- 23 The proposals are quite similar when dealing with the initial ownership to registered rights but adopt different approaches with respect to the initial ownership to unregistered rights.

1. Registered rights

- 24 The initial (single) ownership to registered rights in all proposals is subject to the territoriality approach. However, the applicable law rules on initial title, the same as in the case of a main rule, are worded in slightly different ways. ALI and Kopila proposals refer to the "state of registration,"⁷⁰ whereas CLIP and Joint JK Proposal refer to the "country for which protection is sought."⁷¹ As discussed above, the interrelation of these rules is not entirely clear, and

although in most cases they may lead to the same results, the opinion exists that the results will not coincide in all cases.⁷²

- 25 The employment situations in case of registered rights (especially, employees' inventions) are dealt in not entirely the same way either. In such situations, most proposals suggest subjecting initial ownership to the law governing the employment contract (or other pre-existing relationship) (sec. 311(2) ALI, art. 3:201(3) CLIP, art. 25(1) Kopila; art. 308(4) Joint JK). Only the Transparency proposal does not specifically address this issue and seems to subject it to the same "granting state" rule (art. 305).⁷³ Furthermore, with regards to *lex contractus* rules,⁷⁴ all proposals allow parties to choose the applicable law.⁷⁵ In the absence of choice, however, the suggested solutions vary. Sec. 315 ALI refers to the law with the closest connection, which is presumed to be the law of the residence of the transferor or assignor (i.e. *employee*); similarly, art. 3:503 CLIP refers to the place where or from which the *employee* works unless another place has a closer connection. Differently, art. 25(2) Kopila and art. 307 Joint JK Proposal, in case the choice of law by parties is absent, refer to the country where the *employer* (or assignee/transferee in Joint JK) has a habitual residence. Thus, whereas ALI and CLIP seem to favor the employee in these cases, Kopila and Joint JK proposals seem to be more advantageous for the employer. The Transparency proposal meanwhile, by referring to the law of the granting state, gives a priority to states' territoriality interests.
- 26 The co-ownership situation in case of registered rights is not specifically addressed in most of the proposals. The exception is the CLIP Proposal which suggests co-ownership rules not only to unregistered rights (as is the case in other proposals) but also to the registered rights.⁷⁶

2. Unregistered rights

- 27 The applicable law to initial ownership for unregistered rights is one of the most controversial issues and, not surprisingly, the approaches adopted in different proposals diverge. Whereas ALI, Kopila and Joint JK proposals adopt a universal approach, CLIP and Transparency proposals stick to the territorial approach even for the initial ownership issue.
- 28 Before analyzing the particular rules, it is important to note that their scopes slightly diverges in different proposals. In the ALI proposal universality approach covers only "other unregistered rights" (mainly copyright), whereas unregistered trademark and trade dress are subject to special rules (sec. 312). CLIP does not differentiate between different unregistered rights as a matter of principle but does pro-

vide a special "work-for-hire" rule only for copyright cases. Kopila subjects *all* unregistered rights (presumably including unregistered design and trademark) to the universality approach. Differently, Joint JK Proposal subjects only copyright to the universality approach, and thus the question remains what law regulates other unregistered rights (e.g. unregistered design). Transparency proposal does not distinguish between IP rights at all.

- 29 In a single initial ownership situation, proposals following the universal approach refer either to the creator's residence (sec. 313 ALI) or to the place of creation (art. 308(2) Joint JK; art. 24(2) Kopila - habitual residence of the creator, however, will be taken into account when determining the place of creation). Proposals that promote territorial approach to initial ownership refer to *lex loci protectionis* (art. 3:201(1) CLIP) or granting state law (art. 305 Transparency).
- 30 Regarding co-ownership situation, ALI follows universality approach and suggests three rules in a cascading order – the law assigned by the agreement between parties,⁷⁷ the law of the state where the majority of authors reside, and the law with "the closest connection to the first exploitation" (sec. 313(1)(b) ALI). Kopila proposal overtakes, in a slightly modified manner, the first and third rules suggested by the ALI but omits the majority residence rule (art. 24(3) Kopila), whereas the Joint JK Proposal overtakes the first and second but omits the third one (closest connection rule) (art. 308(2) Joint JK). Meanwhile CLIP group tries to find a compromise between the universal and territorial approaches. Similarly like in ALI and others, most of the issues related to the co-ownership relationship are subject to the law governing the legal relationship between the parties (such as contract, marriage, succession etc.);⁷⁸ if no such relationship exists, the law with the closest connection applies (art. 3:402). The main difference of the CLIP from all other proposals is that proprietary issues, such as who can be the owner and transferability of shares, are subject to *lex loci protectionis* (art. 3:401). The Transparency proposal does not specifically address this issue and thus the "granting state" rule (or *lex loci protectionis*) applies.
- 31 Initial ownership in the case of employment relationship is subject to *lex contractus* rule (sec. 313(1)(c) ALI, art. 25(1) Kopila,⁷⁹ and art. 308(3) Joint JK). The Transparency proposal does not specifically address this issue and thus seems to apply the same "granting state" (or *lex loci protectionis*) rule to this issue as well.⁸⁰ CLIP generally maintains *lex loci protectionis* for employment situations with regards to unregistered rights (differently from registered!). However it, in addition, suggests a novel and unique "work-for-hire" rule. In short, it suggests that "[i]f the situation has a close connection with another State that has a work made for hire provision (...), effect

may be given to such rules by constructing the parties' relationship (...) as involving a transfer or exclusive license of all economic rights in the work" (art. 3:201(2) CLIP). That is, if the law assigned by the *lex loci protectionis* rule grants the initial ownership to the employee but the dispute is closely connected to the country having a work-for-hire tradition (e.g. the work was created there or at least one party resides there), it should be deemed that economic rights have been transferred to the employer.

- 32 For instance, a German director is hired by a U.S. film production company to direct the creation of a movie in the USA; no contract between the parties regarding the transfer of rights is signed. Later, the movie is exploited *inter alia* in Germany in the way that violates economic and moral rights of the director. The film director sues the production company in a German court. Under the CLIP rule, German law, as law of the country for which protection is sought, determines the initial ownership; in this case it would be German law, which grants film director an initial ownership to the film. However, if the case is found to be closely connected to the USA (and U.S. law contains work-for-hire provision), German law would be construed in such a way that all economic rights have been transferred to the producer. Still, the film director maintains at least moral rights available under German law, the violation of which he/she may claim.
- 33 In addition, all proposals following the universal approach suggest an additional "escape" clause: when the assigned applicable law does not grant any protection, the law of the state where the rights are first exploited and recognized is applied (sec. 313(2) ALI, art. 24(4) Kopila, art. 308(3) Joint JK). Also, ALI contains a supplementary provision concerning the validity of contractual choice of law in mass-market agreements (sec. 313(1)(d) ALI).

II. Rationale

1. Registered rights

- 34 It should first be asked why co-ownership to registered IP rights (in contrast to copyright) has not been specifically addressed by most proposals, except for CLIP. The groups either intentionally excluded this issue from their proposals (e.g. as having little practical relevance) or found it suitable to subject it to a main rule governing initial ownership to registered rights (i.e. country of registration) for proprietary aspects of a co-ownership situation and rules on IP transfers in regard to contractual aspects. Meanwhile CLIP has probably realized the increasing importance of joint research (e.g. in collaborative research agreements, joint ventures) and the

problems initial ownership may cause when such research is undertaken and its results are exploited on a cross-border level. By suggesting a two-layer rule to co-ownership situations the CLIP group most likely intended to accommodate dual interests. By subjecting initial co-ownership and transferability of shares to *lex loci protectionis* (3:401), CLIP preserves the interests of states to regulate these important issues on territorial basis. Second, by subjecting all other issues⁸¹ to a single law of the contract (and if there is no contract – the law with the closest connection) it intended to serve the legal certainty interests of the parties.

- 35 Initial ownership to registered rights in case of employment or other pre-existing relationship (e.g. employee inventions) in most proposals (except of Transparency) is subject to the law governing the pre-existing employment relationship, as it gives a uniform answer throughout the world. This helps employers to market the product and enhances the value of the registered rights.⁸² According to the CLIP Group, it is reasonable to subject the initial ownership in these cases to the law of the pre-existing relationship, since the right to claim a registered right, in particular the right to file an invention at the patent office, is transferable under the substantive law provisions of many jurisdictions.⁸³ As will be seen later, the situation is different in case of unregistered rights (copyright).⁸⁴ Certainly, as ALI also recognized, a risk exists that employers (and similar co-contractants) may impose a national law unrelated to the parties or the subject matter of the rights solely for the purpose of denominating the employer as the initial owner. However, where particular states impose employee-protective mandatory rules, the court may take these into account by virtue of mandatory rules exception.⁸⁵ Similarly, the CLIP proposal explicitly prevents the overriding of the employee-protective provisions when choosing the applicable law.⁸⁶
- 36 Differently, the Transparency proposal does not recognize party autonomy in employment relationships and even here subjects the initial ownership to the law of the state granting the right; it seems to disallow any agreement on applicable law. The reason seems to be the respect for national state policies towards the employer-employee relationship. This solution might have been influenced by Japanese court practice. In the Hitachi decision,⁸⁷ Japanese Supreme Court recognized that initial ownership is governed by *lex loci protectionis*. However, in a case dealing with an employee's inventions, it allowed the choice of applicable law between parties with respect to remuneration claims. It further acknowledged that the law selected by parties (in this case – Japanese law) regulated remuneration claims for patents granted not only in Japan but also in other foreign countries. Japanese academics have firmly

opposed such an application of the Japanese Patent Act beyond Japan's borders. According to them, a country's statutory treatment of employee inventions deeply reflects that country's particular policies on patent protection and employee-employer relations.⁸⁸ Transparency group seems to have followed this critical stance and for this reason decided to maintain *lex loci protectionis* for all issues related to the employment relationship.

2. Unregistered rights

- 37** Various arguments have been raised by the groups for choosing or rejecting the territorial or universal approach for the initial ownership issue in cases of unregistered rights. They can be summarized as follows.
- 38** The promoters of universal approach first raise a legal certainty argument: "To make ownership subject to the different laws of the different countries in which the work is exploited may therefore engender uncertainty in the exercise of rights, because it may not be clear whether the person or entity purporting to license rights in fact had the rights to license."⁸⁹ Joint JK group in addition argues that the initial title is closely connected to the state of origin.⁹⁰ At the same time, ALI recognizes that a single-law approach will not create complete certainty so long as States use a public policy (*ordre public*) exception in order to reject the application of the law initially designating ownership.⁹¹ Thus, the ALI suggests that the application of the *ordre public* rule should be truly exceptional.⁹²
- 39** CLIP group recognizes that *lex originis*, by designating a single applicable law, might facilitate the transfer of rights. However, according to them, the reasons for not choosing a single law approach prevail.⁹³ First, as also noted by the ALI, courts are not willing to accept the consequences of the *lex originis* and apply their national copyright law as part of the public policy of the forum.⁹⁴ Second, there are difficulties in determining *lex originis* since the definition provided in art. 5(4)(a) Berne Convention would not always lead to a single clear outcome. In addition, subjecting industrial rights and copyright under different choice of law rules regarding ownership raises another problem.⁹⁵ It is further highlighted that initial ownership in copyright is an essential part of state policy choice, and it is of practical importance to allow states to ensure those policies by maintaining the territoriality principle.⁹⁶ Also, although *lex loci protectionis* may in theory lead to the application of a multitude of applicable laws in multi-state situations, arguably, the practical problems of this "mosaic approach" are often exaggerated: employees explicitly or tacitly grant an exclusive license for all economic rights in the work to the employer.
- Transparency group suggests similar arguments. In addition, they note that it would make no sense to subject initial ownership to a single-law approach if transferability issue remains governed by *lex loci protectionis*.⁹⁷
- 40** The next question is why ALI has chosen creator's residence as a main rule (and for Kopila and Joint JK proposal – as a facilitating rule) for determining initial ownership for unregistered rights. One of the alternatives could have been to provide for the well known country of origin (or *lex originis*) rule. However, ALI rejected this possibility because "the definition of 'country of origin' set forth in the Berne Convention, art. 5(4), presents several alternative criteria for determining the country of origin of a work of authorship, thus it identifies too many possibilities."⁹⁸ Creator's residence is more certain and has a strong link with the creative work.⁹⁹ It is arguable that this connecting factor could promote a sort of "forum-shopping" for the most creator-protective law. However, according to the ALI, the residence of the creator, who (as used in the Principles) is always a natural person and thus has only one residence (see sec. 201(2) ALI), is usually stable, or if it changes, generally does so without regard to possible choice-of-law consequences. Furthermore, an alternative "place of creation" rule was not adopted by the ALI Principles because it might have been entirely fortuitous or unrelated to the work's subsequent commercialization.¹⁰⁰ In addition, other connecting factors such as *lex fori*, *lex rei sitae*, and *lex loci delicti commissii* are also regarded as unsuitable. *Lex fori* would cause "law shopping" by the right holder and legal uncertainty for the infringer, whereas *lex rei sitae*, in the case of exploitation in multiple states, would lead to the designation of multiple laws.¹⁰¹
- 41** Drafters provide little comment as to why they have chosen particular connecting factors to the co-ownership situation. Party autonomy, with respect to applicable law to initial ownership in a co-ownership situation, could be seen as one of the examples where a strict territoriality approach has been loosened. Party autonomy has been recognized in most proposals (except for Transparency), though with certain limitations. In ALI Principles, "[t]he coauthors' choice is limited to one of their countries of residence because these Principles choose as the fundamental point of attachment for works of authorship the person of the author."¹⁰² CLIP excludes such a choice of law with respect to proprietary issues, which because of states' policy interests, should be subject to *lex loci protectionis*.¹⁰³ When there is no party choice, most proposals turn to the closest connection rule (except Joint JK Proposal), which is well known in applicable law to contract but at the same time does not provide for much legal certainty or foreseeability.¹⁰⁴ Most likely because of the latter reason, before turning to the flexible closest connection rule, ALI proposal suggests the "major-

ity's residence" rule, which may give a better guidance in designating the applicable law. On the other hand, the ALI three-layer rule (choice by creators, majority residence and the closest connection) for the co-ownership situation alone might seem too complicated. It is likely that because of this reason the Kopila and Joint JK groups decided to shorten their respective rules.

- 42 The most complicated task appears to have been the determination of initial ownership to copyright in an employment relationship. The main reason for this is due to a different allocation of ownership in case of employment (or similar) relationship in different legal traditions: whereas common law countries traditionally assign it to the employer (on the basis of work-for-hire or similar doctrine), continental law countries vest it into the employee.
- 43 The ALI suggests applying the law of the contractual relationship in such situations. This would designate a single applicable law, which would facilitate the international exploitation of work. ALI group recognizes that "[i]f the contract determines the law applicable to initial ownership, the concern arises that the dominant party to an author-employment or commissioned-work contract will choose a national law designating the dominant party as the initial right holder (...) The creators may not be completely without recourse, however, because § 323 of the Principles instructs the court to consider applying the mandatory rules of the forum or of third countries with points of attachment to the employment relationship, and some of these rules may require creator-ownership."¹⁰⁵ In short, ALI group, and supposedly other groups' proposals following a similar approach (Kopila, Joint JK), expect that employee-protective policies can be preserved on the basis of a mandatory rules exception.¹⁰⁶
- 44 CLIP group apparently was not convinced with the sufficiency of such a solution. For this reason they maintained *lex loci protectionis* as a main rule for determining initial ownership in the case of an employment relationship. It supposedly better ensures the possibility for states to pursue their policies in respect of initial ownership. However, the CLIP group sought to reach a compromise between the two different legal traditions, and for this purpose proposed a "work-for-hire" rule in 3:201(2) CLIP. Its wording is partly inspired by art. 2(3) of the Council Directive 91/250/EEC of 14 May 1991 on the Legal Protection of Computer Programs.¹⁰⁷ According to the CLIP group, "it would be odd in such cases [i.e. those closely connected to the country having a work-for-hire doctrine – R.M.] to attribute the economic rights in the work to the employee since both parties assumed during the production of the work that the exclusive rights should be held by the employer." The "work-for-hire" provision "may give some guidance for the

interpretation of the relationship of employer and employee."¹⁰⁸

- 45 Transparency Proposal instead maintains a strict territoriality approach in this situation and suggests applying the law of each granting state without any exception. It is likely that such a solution was influenced by a controversial Japanese court practice.¹⁰⁹
- 46 The "escape" clause was implemented in the proposals that follow the universal approach. There might be cases that a single selected law does not extend protection over the subject matter (e.g. in the case of databases or industrial designs). In such a case, it would be unreasonable to apply this law to determine initial ownership. As a connecting factor for the "escape" clause, ALI proposed (and other groups followed) the rule of the "first exploitation." This criterion derives from the Berne Convention's "first publication" rule. Arguably, the place of first exploitation has the most significant relationship to the work since "[b]y organizing its first distribution or transmission in that State, the creator or initial rights owner will, in effect, have chosen that State as the State of the work's nationality."¹¹⁰

III. International context

1. Registered rights

- 47 As a general matter, law applicable to (single) initial ownership in the case of registered rights has not received much attention in legal practice. It is ordinarily subject to the same rule as a registered right itself, i.e. *lex loci protectionis*. There are also no specific rules on applicable law in co-ownership situations in patent law (e.g. collaborative research). Under general international private law rules to IP, proprietary aspects are subject to territoriality principle (and most often – *lex loci protectionis*), whereas contractual aspects are regulated by contract applicable law rules (most importantly, choice of parties).¹¹¹ More clear legal solutions have been developed for employment situations. In some countries it is subject to the law governing employment relationship (e.g. Belgium,¹¹² Taiwan¹¹³). Some others seem to subject initial ownership in such situations to *lex loci protectionis* (e.g. China¹¹⁴). A third group of countries suggest a mixed approach (e.g. Austria¹¹⁵). As a fourth option, under the European Patent Convention the right to the European patent is governed by the law of the State where the inventor is principally employed; if this is impossible to determine, it is subject to the law of the state in which the employer has his place of business to which the employee is attached.¹¹⁶

2. Unregistered rights

- 48 The international situation regarding (single) initial ownership to unregistered rights is even more complex. Art. 5(2) of the Berne Convention does not mention initial ownership at all. Art. 14bis(2)(a) of the Berne Convention in respect of initial ownership in cinematographic works refers to the law of the country “where the protection is claimed.” However, there is no agreement on whether it sets an applicable law rule.¹¹⁷ Although Rome II Regulation harmonizes *lex loci protectionis* for non-contractual obligations, according to the majority opinion it does not extend to the initial ownership.¹¹⁸ Meanwhile, national legal practice is divided between *lex loci protectionis* (e.g. Germany,¹¹⁹ Austria,¹²⁰ Spain,¹²¹ Belgium,¹²² Japan,¹²³ China,¹²⁴ and South Korea¹²⁵) and *lex originis* (France,¹²⁶ USA¹²⁷). In case of employment situations, some countries seem to apply *lex loci protectionis* (e.g. Germany),¹²⁸ others *lex contractus* (e.g., Japan,¹²⁹ Taiwan¹³⁰), a third group promotes *lex originis* (e.g. France¹³¹), whereas some suggest a mixed approach (e.g. Austria¹³²). It is important to add here that in France moral rights have been recognized both as internationally mandatory¹³³ and constituting a part of public policy.¹³⁴ Thus, even if the creator was not initially granted moral rights under the applicable foreign law, the rights would be vested into him/her in France under the public policy or mandatory rules doctrine.

IV. Discussion

1. Registered rights

- 49 The first issue is the need for a rule to determine initial ownership of a registered right in a co-ownership situation. The importance of the co-ownership issue in international collaborative research projects shall not be underestimated. The extent of collaborative research is increasing. At the same time, substantial laws differ on determining when co-ownership exists and how the rights of co-owners shall be exercised, and there is no clear answer as to what law governs co-ownership when research is undertaken in several jurisdictions.¹³⁵ Thus the attempt to address these issues in the CLIP proposal shall be welcomed. Also, subjecting the relations between co-owners (such as exercise and enforcement of rights) to a single applicable law that can be chosen by parties shall be welcomed. It facilitates the exploitation of rights and distribution of revenues between co-owners.

- 50 One should, however, ask how reasonable it is to keep territoriality principle in such situations. One may understand the wish to subject initial co-ownership and transferability – issues intrinsically related

to the IP right as such – to the *lex loci protectionis*. This is the rule applied in single-ownership situations and it intends to preserve state interests to regulate co-ownership for patent rights in respect of their territory. On the other hand, one could point to the problems such differentiated treatment of proprietary and contractual aspects may cause. For instance, there might be situations that partners to a collaborative research choose one law governing the exploitation of the results of the joint research, however, one partner is not granted co-proprietorship under the law of the country where he/she wants to exploit the results.¹³⁶ Such a scenario is possible since a standard to get a co-inventor status may differ from state to state.¹³⁷ In order to avoid such transaction costs, initial ownership of registered IP rights in *employment* relationships is normally subject, in its entirety, to the law governing the employment relationship. Similarly, in the case of a co-ownership situation one should consider giving priority to the parties’ interests for legal certainty needed to exploit the results of a joint research. For these reasons some authors suggest qualifying all co-ownership issues as contractual and subjecting them to a law chosen by parties.¹³⁸

- 51 Most proposals subject initial ownership in case of employees’ inventions to the law governing employment contract. Only Transparency proposal does not contain any specific rule and seems to subject such situations to the law of each granting state. Whereas the rationale of the former solution is clear (legal certainty in case of international exploitation), the rationale of the latter solution is dubious. Subjecting initial ownership in employment situations to the territorial approach leads to uncertainty. Both parties cannot know in which countries which party (employer or employee) owns the initial right. This further complicates the question of in which countries does the employer have to acquire the right and for which territories does it have to pay remuneration. Further, the problem of the Hitachi case,¹³⁹ which is likely to have been a reason for this different solution in the Transparency proposal, could be solved in a more proportionate way than subjecting it to *lex loci protectionis*. For instance, courts could apply the same *lex contractus* rule, but in a limited manner – *lex contractus* may decide who is the initial owner worldwide, however, the national remuneration provision may have only territorial effects.

2. Unregistered rights

- 52 Extensive studies have been written analyzing advantages and disadvantages of territorial and universal approaches to the initial ownership issue¹⁴⁰ and this question has been intensively discussed by the members of each project. Below only the main arguments can be outlined.¹⁴¹

- 53 The first question is what are the main advantages and disadvantages of the territorial and universal approaches and the respective rules proposed by different groups, namely, *lex loci protectionis* and creator's residence rule in cases of initial (single) ownership,¹⁴² i.e. where there is one creator.
- 54 As an initial option, the territorial approach, and a corresponding *lex loci protectionis* rule, is advantageous in several respects. First, it is consistent with a general territorial approach to copyright disputes adopted in all Proposals. Thus, the law that determines all proprietary and infringement-related issues will also determine the initial ownership. Second, it is normally easy to identify the law of the protecting country as it would most often coincide with the place of infringement. Third, some commentators derive it from the Berne Convention: even if there is no clear agreement whether it is implied by the national treatment provision found in art. 5(2), art. 14bis(2)(a) rather unambiguously subjects initial ownership in cinematographic works to the law of the country "where the protection is claimed."¹⁴³ Fourth, the territorial approach would allow states to maintain their national policies in respect of initial ownership issue. This is of special importance, since this issue is up to now addressed rather differently in different legal traditions.
- 55 At the same time one could list the main contra arguments. Most importantly, *lex loci protectionis* would arguably lead to the need to determine initial ownership under multiple laws, which may lead to the situation where the person owns rights in one country but not in another. This becomes of special relevance when works are used in such a ubiquitous media like the Internet. On the other hand, in practice this problem in *single* initial ownership cases is likely to be minor, since the substantive laws on this issue barely differ: in *single* initial ownership cases the initial owner will normally be a creator. Secondly, it is highly doubtful if the Berne Convention implies any applicable law rule on initial ownership. Art. 5(2) does not mention initial ownership at all. Art. 14bis(2)(a) is also interpreted differently and is of little practical relevance: it is barely ever mentioned in court decisions dealing with the issue and has been denied in judgments where *lex originis* was applied in respect of the initial ownership issue.¹⁴⁴ Thirdly, the states' interest argument is of little relevance in case of *single* initial ownership cases since it is normally attributed to the creator.
- 56 The other, universality approach, as represented by the creator's residence rule here, also has numerous advantages and disadvantages. The main, if not the single most significant advantage of it would be the legal certainty it is supposed to create: it would indicate a single applicable law that would determine the initial ownership worldwide. On the other hand, one of the main problems is determining a proper con-

necting factor. It is true that the creator's residence rule has several advantages over other potential connecting factors. It is a more stable connecting factor than the place of creation;¹⁴⁵ it cannot be manipulated by the right holder as easily as the *lex fori* rule; by referring to the "creator" and thereby avoiding the concept "author," the ambiguous nature of the later term has been avoided.¹⁴⁶ ALI principles have also tried to deal with other problems relating to this connecting factor. For instance, there is no international, regional or, in some cases, national uniform definition of "residence" for the purposes of international private law;¹⁴⁷ furthermore, the creator may have been changing his/her residences or had several residences.¹⁴⁸ Thus, the Principles define the creator's residence "at the time the subject matter was created;" they also suggest certain guidelines when defining the creator's residence.¹⁴⁹ Also, in case the law of a creator's residence does not grant protection over the subject matter, an escape clause that refers to the place of first exploitation may be applied.¹⁵⁰ This rule has often been discussed in doctrine as one of the most suitable alternatives for initial ownership.¹⁵¹ On the other hand, it remains unclear what law would be applied when a work is first transmitted over the Internet, when it is first exploited simultaneously in several countries, or when the work has not been exploited at all. In addition, some argue that the creator may manipulate the point of attachment by moving to a country with advantageous rules on initial ownership. However, as ALI rightly argues, the more favorable initial ownership rules are unlikely to influence the decision of the creator when choosing a place of domicile.

- 57 The co-ownership situation is more complicated. States have different regulations regarding who is the co-owner of collaborative works and how the co-ownership could be exercised.¹⁵² This reflects the differing policies of the states. At the same time diverging substantive laws lead to legal uncertainty when exploiting and enforcing the rights internationally.
- 58 As a first option, the *territorial approach*, as adopted for the co-ownership situation by the CLIP and Transparency proposals, obviously serves the states' territoriality interests. However, it raises some legal certainty concerns. The CLIP proposal subjects the initial co-ownership and transferability of shares (Transparency proposal – all issues) to the *lex loci protectionis* rule; thus, they will be determined in each protecting country independently. On the other hand, it is questionable if the issue on who is entitled to co-ownership is that problematic and important (as, in comparison, initial ownership in employment relationship where parties have normally unequal bargaining powers). Even if national laws provide to a certain extent different rules on co-ownership, it is questionable whether the differences are of such a significance that they should be preserved on the

costs of (both initial and subsequent) right holders and users who have to identify the co-owners in each country separately. To facilitate this situation, CLIP suggests a second part of the rule (no comparable one is available in the Transparency proposal). Under the CLIP Proposal, most of the other issues (licensing, enforcement, etc.) are subject to a single law governing parties' relationship (contract, marriage, succession, etc.). However, as all the issues (initial co-ownership, transferability, licensing, enforcement, etc.) are intrinsically related, it is questionable whether the application of different rules will increase legal certainty or, in the opposite, will lead to more confusing or even conflicting results.¹⁵³

- 59** As another option, the *single-law approach* adopted for the co-ownership situation in the ALI, Kopila and Joint JK proposals also has its strengths and weaknesses. As a main advantage, a single applicable law would make the exploitation and enforcement of the work easier both for initial and subsequent right holders as well as users. One problem, however, is trying to find clear and sufficient connecting factors. The combination of party autonomy and the closest connection rules (as proposed by ALI and Kopila) is a combination that has been broadly accepted in applicable law to contracts.¹⁵⁴ Party autonomy allows the parties to choose the law most suitable for them¹⁵⁵ whereas the closest connection rule provides flexibility to determine the relevant law in case the choice of parties is absent.
- 60** The problem with the latter rule is a lack of legal predictability. ALI addressed this problem by proposing to apply the law of majority residence first. Only if there is no majority residence shall the first place of exploitation be taken into account when determining the law with the closest connection. On the other hand, one may argue that the combination of these four connecting factors just for a co-ownership situation might seem to be too complex of a solution that diminishes rather than increases the level of legal certainty. Here, a "shortened" version of the ALI rule as suggested by the Kopila and Joint JK proposals could be considered. The second problem of a single-law approach is a lack of protection of states' policies. This might especially be seen in cases related to cinematographic works, where different states grant initial ownership to different persons participating in the production.¹⁵⁶ For example, a film is created in country A and an international group of contributors (director, screenplay writer, composer, dancer, etc.) decide to apply A country's law to their relationship. Country A's law vests initial ownership only into the director of the film. Thus, all other contributors appear to have no rights in the film worldwide, even if they were granted a co-ownership in their national jurisdictions. As a result, it remains a difficult task to choose what interests shall prevail – those of legal certainty or the protection of local policies.

- 61** The situation in regard to the initial ownership in an employment (or comparable) relationship is similar to the co-ownership cases, only even more complicated. The continental and common law traditions differ radically on this issue on a substantive law level. The former countries, as a general rule, vest initial ownership to the employee (creator), whereas the latter vest it to the employer (production company) on the basis of a "work-for-hire" (or similar) doctrine.¹⁵⁷ Whereas the former intends to protect the interests of private creators, the latter seeks to facilitate the exploitation of the work by a single person – the employer. The analyzed proposals try to balance these interests on the applicable law level but all in different ways.
- 62** The *lex loci protectionis*, as adopted in the CLIP and Transparency proposals, do help countries preserve the application of their policies at least with respect to exploitation acts occurring in their territory. The main problem though, again, is the legal uncertainty that the application of multiple laws will cause because there are likely to be different initial owners of the same work in different countries. It is possible that the problem is mitigated in practice since employers and employees normally sign rights-transfer contracts.¹⁵⁸ Still, since some rights cannot be transferred in some countries (e.g. moral rights, some remuneration rights), the employee will retain them in respect of some, though not all countries. Also, all rights may remain with the employee if no special contract on the transfer of rights has been signed.¹⁵⁹
- 63** The CLIP Group recognized that in some situations such an approach would be unreasonable and thus suggested the above described "work-for-hire" rule. However, it is questionable if it will provide sufficient legal certainty. First, its application is subject to three cumulative conditions: there should be a contractual relationship between the parties; another country should have a close connection; and that country should have a work-for-hire or similar provision. Second, each of the requirements is not sufficiently defined. For instance, it is not clear what contractual relationships are included; the "close connection" requirement is flexible and the results of its application cannot always be foreseen. Third, since the rule is formulated as a substantive law rule, its suitability as an international private law instrument may be disputed. Fourth, it enables the employer to acquire only economic rights, whereas the employee maintains the moral rights. Employees (or their heirs) may exercise these moral rights in order to block new uses, for example.¹⁶⁰ It is also unclear what is meant by economic rights – will remuneration rights (rental, lending or resale) or future rights also be deemed transferred to the employer? In addition, the courts "may" rather than "shall" apply this rule. Finally, the geographical scope of this provision is limited – if the case is brought under e.g. German law, the employer may "acquire" the eco-

nomic rights only in Germany, whereas legal uncertainty will remain with regards to the exploitation in other countries.

- 64 In contrast, the *lex contractus* rule as suggested in the ALI, Kopila and Joint JK proposals leads to a single applicable law for initial ownership in the employment relationship.¹⁶¹ Also, the law applicable to the employment contract is rather easy to identify under the general applicable law rules. These rules, as have been seen above, are substantially similar in the EU and the USA and they meet the expectations of both parties.¹⁶² Also, the employment contract normally covers several issues related to intellectual property. If the issues were subjected to different laws, this might lead to conflicting results¹⁶³. Thus, the *lex contractus* rule is likely to ensure legal certainty more efficiently than the *lex loci protectionis* rule (even if combined with the “work for hire” rule as suggested in the CLIP Proposal).
- 65 On the other hand, similar to the co-ownership situation, the protection of the states’ (or more specifically – creator-protective states’) interests is relatively weak under the *lex contractus* rule. It is often argued that a single law approach favors employers’ exploitation interests at the cost of creators’ interests.¹⁶⁴ If the law containing work-for-hire doctrine is applied to the relationship, the employer retains all rights, whereas the employee loses all potential rights worldwide. Furthermore, the *lex contractus* rule contains a danger that the employer, as a stronger party, will choose the law favorable to him/her.
- 66 Regarding the latter problem, however, some legal systems implement employee-protective provisions when choosing the employee contract law.¹⁶⁵ With regards to the first problem (lack of protection for creator), one could however point that whereas the *lex contractus* rule might deprive a creator from any rights in some cases, it may also initially vest the creator with worldwide rights if the law contains author-protective provisions. Furthermore, according to ALI commentators, author-protective provisions could be enforced under the mandatory rules exception.¹⁶⁶ The latter proposal is, however, not without a problem. First, what should be treated as “mandatory rules” is a controversial issue.¹⁶⁷ The ALI Principles seem to provide a rather broad concept of the term (including creator-protective provisions with regard to an employment relationship),¹⁶⁸ however, this shall be determined under each state’s national laws. Second, even if courts may be allowed to apply foreign mandatory rules, it is very doubtful if a court would do that without a very strong reason.¹⁶⁹ Third, some commentators argue that if the mandatory rule exception is to be applied in each case where the initial ownership issue is at stake, the exceptional nature of this rule will be lost.¹⁷⁰ On the other hand, one should keep in mind that the given problem –

determining applicable law for initial ownership in an employment relationship in a dispute related to both creator-protective and work-for-hire systems – is very rare in practice.

- 67 In conclusion, in regard to employment situations, the *lex contractus* rule seems to ensure more legal certainty than *lex loci protectionis* (even in combination with a special “work-for-hire” rule). However, the former does not satisfactorily address the interests of author-protective countries. Additional solutions might need to be discussed.

CONTRACTS

D. Transferability

Sec. 314 ALI, art. 3:301 CLIP, art. 305 Transparency, art. 19 Kopila, art. 309(1) Joint JK

I. Differences

- 68 Transferability of IP rights is one of the issues that is rather unitarily regulated in all proposals. The proposals subject transferability to the territorial approach. It is true that the wording of the applicable law rules slightly differ¹⁷¹ but the underlying rule and the expected results seem to be the same. Similarly, the scope of the rule is also worded in a slightly different manner¹⁷² but the intended scope seems to be the same.
- 69 The only significant difference is an interesting exception proposed in the Joint JK Proposal: “The transferability of copyrights may be governed by the same law which is designated by the provision of paragraph (2) of the preceding Article if the parties’ agreement under Article 302 is available” (art. 309(2) Joint JK). On the one hand, according to the first part of the provision, it allows (but not requires) subjecting the transferability issue to the same law that governs initial ownership (the latter is subject to the single-law approach in the Joint JK Proposal). On the other hand, according to the second part, this is possible only if parties have agreed on this. At the same time, the agreement is subject to art. 302, which restricts the effects of agreements *inter partes*. It is questionable how this exception would function in practice.

II. Rationale

- 70 The main reason for choosing *lex loci protectionis* seems to be various restrictions on the transferability of the copyright or of particular claims in the continental law systems (e.g. non-transferability of

moral rights, non-transferable remuneration claims for rental right, etc.).¹⁷³ In addition, ALI group explains that the provision “reflects the widely accepted principle that the law applicable to the alienability of intellectual property rights is that of the law governing the existence, content, scope, and remedies for the violation of those rights. This is a subset of the broader choice-of-law regime for transferability of moveable property.”¹⁷⁴

- 71 Joint JK group however, has acknowledged that the application of *lex loci protectionis* to transferability issues may hamper the international exploitation of rights. There might be no use of a single-law approach to initial ownership if the transferability issue has still to be decided on a state-to-state basis. Thus, art. 309(2) Joint JK intended to facilitate the transfer of copyright. The group explains that *lex loci protectionis* is reasonable when deciding transferability to industrial rights. However, “copyrights are less connected to the state of protection than registered intellectual property such as industrial properties, because registration is not a condition of the right under the non-formality principle of the Berne Convention. Thus, the transferability as well as initial ownership of a copyright should be sufficiently flexible considering the parties’ choices.”¹⁷⁵ On the other hand, the group was probably aware that *lex loci protectionis* is accepted for transferability issues both in Japanese and international legal practice. Most likely because of this they formulated the provision as non-mandatory (“may”).

III. International context

- 72 *Lex loci protectionis* has been an accepted rule for the transferability issue in reported national practice (e.g. France,¹⁷⁶ UK,¹⁷⁷ Germany,¹⁷⁸ Austria,¹⁷⁹ Belgium,¹⁸⁰ USA¹⁸¹). No country has been identified where transferability issues were subject to a single-law approach.

IV. Discussion

- 73 There are good arguments for the application of *lex loci protectionis* in respect of transferability. Numerous states have restrictions on transferability of copyrights.¹⁸² Subjecting transferability to *lex originis* would mean that states are not anymore able to determine the scope of transferability in respect of transfers of national rights. One may argue that, even if *lex originis* were applied, states could enforce their policies on the basis of mandatory rules or public policy exceptions¹⁸³. However, courts would normally take into account only the mandatory rules of the forum. Meanwhile *lex loci protectionis* allows enforcing the author-protective rules not only when claims are brought before the courts of the state

whose laws contain such rules but also in disputes arising before the courts of another state (e.g. when a court is asked to enforce foreign copyright). Also, the price of applying public policy and internationally mandatory rules is a disturbance of the international harmony of decisions and an inherent danger for forum shopping.¹⁸⁴

- 74 On the other hand, one could understand the problems that Joint JK Proposal seeks to address. First, the application of *lex loci protectionis* to transferability would hamper cross-border licensing, which is in particular problematic when licensing copyright on an international scale (e.g. Internet). Second, the initial ownership and transferability issues are closely connected and it is logical to subject them to the same rule.¹⁸⁵ Also, if initial ownership is subject to the universal approach and transferability issue to the territorial approach, the latter will eventually make all the advantages of the former ineffective in practice.¹⁸⁶

E. Contracts

Sec. 315-316 ALI; arts. 3:501-3:507 CLIP; arts. 306-307 Transparency; art. 23 Kopila; art. 307 Joint JK

I. Differences

- 75 First of all, all proposals allow parties to choose the applicable law (party autonomy principle). CLIP elaborates on party autonomy more than other proposals.¹⁸⁷ ALI Principles in addition suggest rules to protect a weaker party in standard agreements (sec. 315(3)(a) ALI).
- 76 If the agreement between parties is absent, all proposals, as a matter of principle, refer to the country with the closest connection. The law with the closest connection is however determined in a different way. ALI establishes a presumption of the transferor’s or licensor’s residence (sec. 315(2) ALI), which assumingly can be rebutted in case another country has the closest connection to the contract. Transparency proposal establishes two rules, namely, the *lex loci protectionis* for single-country contracts and transferor’s or licensor’s habitual residence rule for multi-state contracts; in addition, the “escape” clause allows for applying the law with the closer connection.¹⁸⁸ CLIP suggests a two-step rule.¹⁸⁹ First, it requests the court to analyze a list of factors in order to determine the law with which country – habitual residence of assignor/transferor or that of the assignee/transferee – the contract has the closest connection (art. 3:502(2)). Second, if no clear answer is found, CLIP proposes two (rebuttable) presumptions similar to the ones found in the Transparency proposal, namely, *lex loci protectionis* for single-coun-

try contracts and assignor's/transferor's residence rule for multi-state contracts. In contrast, the Kopila and Joint JK proposals presume that the assignee's or transferee's country of residence has the closest connection;¹⁹⁰ in addition, the Joint JK Proposal subjects the latter rule to the list of factors that resembles the one suggested by the CLIP group.¹⁹¹

- 77 Further, CLIP contains a special provision on employment relationship (art. 3:503). The relationship of employers and employees, in particular the right of the employer to claim the IP right and the corresponding right of the employee to claim for additional remuneration, are governed by the law chosen by parties, subject to the protection afforded the employee by the state where he habitually carries out his work. In the absence of choice, the law of the state where he habitually carries out his work applies. Other proposals contain only provisions on applicable law to initial ownership in case of employment relationship but do not provide for special provisions governing other issues related to it (such as a right to claim a registered right or a right to remuneration).¹⁹²

II. Rationale

- 78 The main difference between the proposals is the presumptions they suggest in case of an absence of choice by the parties. ALI explains its choice of assignor's or transferor's residence as follows: "The reasons for that designation are twofold: 1. The intangible subject matter of the transfer or license has been developed by the transferor or licensor in its factories, workshops, or studios. It is aimed at working or being used in a given technical or social environment. Therefore, disputes relating to the contract under which ownership or use of the intangible asset is transferred or authorized are best adjudicated taking into account the law of that State. It is more closely connected to the creation of, as well as to guarantees and warranties pertaining to, this asset than the law of any other State. 2. The licensor's residence will often correspond to the place of 'characteristic performance' under European conflicts principles (...) For example, a copyright licensing agreement is an agreement under which the main promise is the undertaking by the licensor to allow the licensee to use or copy the work. Thus, with respect to intellectual property contracts, the characteristic performer is the transferor or licensor. The licensor's residence also usually corresponds to the place where the intellectual property assets were developed and thus may have been instrumental in encouraging production of the work."¹⁹³

- 79 The CLIP group, when drafting the rules on applicable law to IP contracts, used the Rome I Regulation as a model. However, the group has noted that the

characteristic performance rule provided in art. 4(2) Rome I Regulation is not helpful in complex IP transfer cases.¹⁹⁴ For this reason, art. 3:502(2) provides a flexible rule instead that includes a set of factors, which should help to determine the state with which the contract is most closely connected. Only if these factors do not lead to a clear decision on applicable law does the CLIP proposal suggest two fall-back presumptions. This approach arguably follows the prevalent opinion among European scholars who plead for a differentiated model. According to that model, some contracts are most closely connected to the residence state of the transferor or licensor, whereas others have closer links to the residence state of the transferee or licensee or to the state for which the IP right is transferred or licensed.¹⁹⁵ In addition, the drafters of the Joint JK mention that developed and developing countries have entirely different answers to the question of what is the characteristic performance in IP contracts.¹⁹⁶ Namely, the developed countries (where most IP assets are created and thus where the transferor or assignor normally resides) prefer designating the state of the transferor's or assignor's habitual residence, whereas the developing countries (for which territories the rights are normally assigned) prefer the opposite assignee's or transferee's rule. This could have been one of the reasons why the Asian proposals have chosen the latter approach.

- 80 The CLIP group found it important to address the issue of applicable law for employment relationships. In their opinion, the obligations between the employer and employee (e.g. a right to claim a registered right and a right to remuneration) need a separate treatment from the initial ownership or transferability issue. They are normally regarded as contractual matters.¹⁹⁷ Thus, CLIP decided to follow art. 8 of Rome I Regulation here, which is partly in line with Art. 60(1) sentence 2 of the European Patent Convention (EPC) but allows for party autonomy.¹⁹⁸

III. International context

- 81 Contractual aspects of IP transfer contracts are subject in most jurisdictions to general applicable law rules to contracts (e.g. U.S.,¹⁹⁹ UK,²⁰⁰ France²⁰¹). As a main rule, they all provide for party autonomy. Regarding applicable law in the absence of choice, the 1980 Rome Convention on the law applicable to contractual obligations used to designate the law of the country where the party which is due to accomplish a characteristic performance to the contract has a habitual residence ("characteristic performance" rule).²⁰² As a general matter, this provision used to be applied to IP contracts as well. However, because of different types of IP contracts, its application has not been unitary: in some cases the courts would refer to the habitual residence of the assignor or trans-

feror, in others, to the habitual residence of the assignee or transferee. In order to solve this problem, the Rome I Regulation draft provided the residence of transferor or licensor as a main rule.²⁰³ However, in the final version it was abandoned because experts submitted that the proposed rule would not be suitable for many contracts having as their main object the transfer or license of an IP right.²⁰⁴ It has been argued by the majority of commentators that in complex contracts it is not clear which party's performance is characteristic, and in some cases the contract has a closer connection to a country other than where the party affecting a characteristic performance resides.²⁰⁵ As a result, under Rome I Regulation, IP transfer contracts might be subject to several rules. If the transfer is part of a more complex agreement listed in art. 4(1) Rome I (like distribution or franchise), it will be subject to the law governing that agreement. If the agreement does not fall under any of the enumerated categories, it is subject to the characteristic performance rule found in art. 4(2) Rome I Regulation. Courts may deviate from this rule when the contract is "manifestly more closely connected" to another state ("escape clause", art. 4(3) Rome I). Finally, if it is impossible to determine the applicable law under the above mentioned rules, the closest connection rule applies (art. 4(4) Rome I).²⁰⁶

- 82** National law diverges on the issue. In Switzerland, IP contracts are subject to the law of the grantor's habitual residence.²⁰⁷ Formerly, Austrian law used to point to *lex loci protectionis* when there was only one country of protection, and to the law of the assignee's or transferee's habitual residence in case of multi-state contracts.²⁰⁸ In Germany, no specific statutory rules exist. However, Düsseldorf district court in the "*Virusinaktiviertes Blutplasma*" case explicitly held that the applicable law to patent license contracts must be determined on a case by case basis.²⁰⁹ The German Federal Supreme Court has held in relation to book and music publishing contracts that the law of the publisher's habitual residence applies.²¹⁰ In China IP contracts are subject to the general rules on applicable law to contracts.²¹¹ Namely, the rule on characteristic performance applies unless another law has the closest connection with the contract.²¹²

IV. Discussion

- 83** The law applicable in the absence of an agreement on applicable law has been extensively discussed at least in European doctrine. The main arguments for and against each of the proposed rules are shortly outlined below.
- 84** To start with, the licensor's (assignor's or transferor's) *habitual residence* seems to have the strongest support in the doctrine as the main applicable law for IP contracts. First, in "simple" IP contracts (e.g.

when licensee's only duty is to pay a fixed amount), it is the licensor who affects a characteristic performance.²¹³ Second, it would normally refer to the country where the IP (invention, industrial design, etc.) was created, where the IP assets were first marketed and to which environment the debtor's whole organization has been geared.²¹⁴ Third, the existence of the whole contract depends on the existence of the exclusive right. Fourth, it would lead to the application of a single law to the entire international contract (differently from *lex loci protectionis*). Fifth, from a policy perspective, making the licensor's law applicable is arguably a very promising tool to instill confidence in small and medium enterprises that might otherwise reject any thought of sharing their IP assets with companies in different countries.²¹⁵ Sixth, in case of agreements on author rights, this criterion has an advantage since it refers to the habitual residence of the author, who is considered a weaker party.²¹⁶ Finally, it arguably brings legal certainty and predictability; when it is not suitable, an escape clause can be applied.²¹⁷

- 85** To mention the main contra-arguments, it is claimed that in some complex contracts, the closest connection might be with the licensee's place of residence rather than licensor's (e.g. in production and distribution agreements licensee can undertake important additional obligations). Also, the licensor's habitual residence can have little connection with the place of invention (e.g. when an inventing company establishes a daughter company in some other country for the purpose of licensing its rights;²¹⁸ or when a licensor is not an inventor but e.g. the exclusive licensee residing in a different country).²¹⁹ Moreover, the transferor's residence rule may lead to unfair results since it strengthens the dominant position of technology providers in contracts relating to industrial property rights.²²⁰ Thus, some commentators have suggested applying this criterion only in certain situations (e.g. only if the license is granted for several countries or only if the license is neither exclusive nor if there is an obligation to exploit the right).²²¹
- 86** Licensee's habitual residence, as a second alternative, similarly has certain advantages and disadvantages. In short, licensee's habitual residence will arguably have the closest connection in e.g. complex contracts where licensee is investing capital and manpower in the exploitation of the industrial property right, while licensor only receives royalties or other payments under the contract.²²² Furthermore, one may argue that the contract has the strongest connection with the country where the rights are exploited, which is normally the place where the licensee resides. However, these arguments could be challenged by arguments listed above. For instance, differently from complex contracts, simple contracts may set numerous duties to the licensor where licensee has only a duty to pay remuneration (and

thus licensor's residence seems to be more suitable here). Further, the second argument fails if the licensee exploits the right in a country other than its habitual residence.²²³ Thus, similar to the transferor's residence rule, some commentators have suggested this criterion should be applied only to certain situations (e.g. if the licensee has a duty of exploitation or if an exclusive license is granted).²²⁴

- 87** In regard to the *lex loci protectionis* rule, as a third option, commentators argue that it is similar to the *lex rei sitae* rule that is applied for contracts related to immovable property. Further, the IP right is limited to a particular country. In most cases the primary exploitation acts will take place in the country of protection. Also, as proprietary aspects are in any case governed by *lex loci protectionis*, subjecting contractual aspects to the same rule will lead to the application of a single law.²²⁵ To mention the main contra-arguments, it is suggested that if a single license grants exploitation rights in several countries, multiple laws would apply to the same contractual relationship. Furthermore, when both a licensor and a licensee have a seat in the same country different from the country of protection, the former country seems to have a closer connection to the contract. Also, different treatment of single-country and multiple-country contracts might seem unjustifiable and it would be rather unreasonable to change applicable law when a single-country license is amended into a multiple-country license.²²⁶ *Lex loci protectionis* would also lead to different treatment of a patent license on the one hand and a know-how license contract on the other hand; this would cause problems in practice since contracts often contain licensing of both.²²⁷
- 88** The last option to be mentioned here is a *flexible approach* which allows courts to determine the law with the closest connection on case-by-case basis (CLIP). It takes into account that none of the above discussed or other connecting factors suits all situations, instead, each of them might be relevant for certain cases. At the same time, the CLIP proposals' drafters have realized that such a flexible rule would not lead to a clear answer in many cases and may thus compromise legal certainty and predictability.²²⁸ For this reason a "fall back" rule comprised of two presumptions (*lex loci protectionis* and assignor's/transferor's habitual residence) has been added. In this way the compromise between flexibility and foreseeability has been reached. On the other hand, this was achieved at the cost of simplicity – the rule turned to be rather long and complicated.

F. Security rights

Sec. 317 ALI, arts. 3:801-3:803 CLIP, art. 308 Transparency, art. 32 Kopila

I. Differences

- 89** The law applicable to IP security rights is regulated rather differently across the proposals. ALI and CLIP distinguish between proprietary aspects of IP rights and contractual aspects of contracts creating security interests. The first ones are subject to the law of protecting country. The latter ones are not regulated by ALI whereas CLIP subjects them to a separate set of rules (the choice of law by parties, closest connection rule, grantor's habitual residence rule). Transparency and Kopila proposals do not, at least explicitly, distinguish between different issues. In Transparency proposal "security interests in intellectual property rights" are subject to the law of the country granting the right (i.e. *lex loci protectionis*). Meanwhile the Kopila proposal subjects security contracts to the same rules that apply to assignment and license contracts (choice of law agreement, the closest connection rule and security holder's habitual residence). Joint JK Proposal does not specifically address the issue.

II. Rationale

- 90** Transparency Proposal has followed a view accepted in most countries (including Japan²²⁹) that security interests in IP rights shall be subject to the *lex loci protectionis* rule. ALI understood the problems caused by territorial approach in international transactions and adopted a more careful approach. Namely, it excluded contractual aspects and left this issue to be regulated by other international initiatives. CLIP, after an intensive exchange with the UNICITRAL working group, adopted a compromise – whereas the proprietary aspects (existence, scope, initial ownership and others) remain subject to the same rules the CLIP Proposal prescribed to IP rights, contractual aspects are governed by special rules, which is first of all the law of the grantor's residence.

III. International context

- 91** Most international conventions do not address security rights in intellectual property, nor do they provide conflict rules for this field.²³⁰ On the national level, the application of the *lex loci protectionis* on all questions of IP security rights seems to be the traditional approach found in e.g. Germany,²³¹ Italy,²³² and Japan.²³³ Alternatively, under the *EU Community Trade Mark (CTM) Regulation*, a Community trade mark as an object of property is dealt with in its entirety as a national trade mark registered in the Member State in which either the proprietor has his seat or domicile, or an establishment, or where the Harmonisation Office is situated.²³⁴ Also, a differentiated treatment of different issues could also be found in jurisdictions that are influenced by the *Uniform Com-*

mercial Code (UCC) as well as a new Australian Personal Property Securities Act 2009.

- 92 In addition, several model laws address the issue. The *UNCITRAL Legislative Guide on Secured Transactions - Supplement on Security Rights in Intellectual Property*²³⁵ follows a hybrid approach similar to the one proposed by the CLIP group: as a general matter, proprietary issues (creation, effectiveness against third parties and priority of a security right in intellectual property) are subject to *lex loci protectionis*, whereas contractual issues (enforceability) are governed by the grantor location's law.²³⁶ The issue is also regulated in the *Model Inter-American Law on Secured Transactions of the Organization of American States* (OAS)²³⁷ as well as the Model Law on Secured Transactions of the European Bank for Reconstruction and Development.²³⁸

IV. Discussion

- 93 The draft comments to the CLIP Proposal outlines a good summary of arguments.²³⁹ In short, the application of the traditional *lex loci protectionis* approach to all issues leads to a synchronisation of the object of security and the security right itself. It avoids *dépeçage* between the property right and the security interest.²⁴⁰ This makes it easier to comply with registration requirements in the country of protection, which may be a prerequisite for third-party effectiveness of the security right. Further, from the perspective of the *lex situs* approach to property law, the application of the country of protection's law may be seen as the closest equivalent to the *situs* of corporeal property.
- 94 On the other hand, as the CLIP group suggests, the disadvantages of a strict *lex loci protectionis* approach are apparent. First, it necessarily leads to a fragmentation of the secured transaction, which has to be made effective for all jurisdictions in which the work, sign or invention may be protected. Apart from the resulting costs, one may also question whether the (main) justification of the *lex loci protectionis* of protecting the economic, social and cultural policy of the country of protection, applies with equal force to a 'mere' security interest. In addition, while there are some aspects of security rights that clearly concern the third party interests (in particular priority and third-party effects), or the interests of the registration authority (namely registration and its effects), others seem to be relevant primarily or exclusively for the relationship between the parties of the transaction (e.g. the conditions under which the secured party may enforce his/her security if the grantor defaults on the loan). Furthermore, the application of several *leges protectionis* may lead to frictions in insolvency. Finally, a brief look to substantive law reveals that only certain aspects of secured transac-

tions in this field are governed by specific intellectual property legislation, while others fall under the general rules of secured transactions law, which militates in favor of distinguishing both matters on the level of conflict of laws as well.

INFRINGEMENT

G. Party autonomy

Sec. 302 ALI; art. 3:606 CLIP; art. 304 Transparency; art. 20 Kopila; art. 302 Joint JK

I. Differences

- 95 All proposals allow at least a limited choice of applicable law in IP infringement cases. Some differences, however, can be identified. First, the scope of choice of law by parties is not entirely the same. Most proposals, despite different wording, seem to allow for the contractual choice in respect of infringement-related issues whereas proprietary issues are excluded from such a choice.²⁴¹ CLIP adopts a more restrictive approach and allows a choice only in respect to remedies (3:606 CLIP); thus, other infringement-related issues, such as third party liability, limitations of liability, and more, are excluded from party autonomy. On the contrary, the Joint JK proposal is most generous. It contains an open-ended list of excluded proprietary issues but the parties are not prevented from choosing law applicable to these issues; rather, such choice would affect only the contracting parties (art. 302(1) and (2)). As a result, the Joint JK Proposal allows parties to choose applicable law with respect to all issues related to IP infringement, though the choice of law for proprietary issues has only *inter partes* effects.
- 96 As another less significant difference, the effects of agreements over excluded issues differ. For instance, Transparency proposal explicitly states that such choice is null and void (art. 305 Transparency). ALI meanwhile explains that, although the law that has been chosen by parties for proprietary issues cannot extend to the scope of rights (and thus infringement cannot be found), the parties can still claim remedies for the breach of such choice of law contract.²⁴² Also, all proposals, except for CLIP, explicitly state that the choice of law shall not affect the interests of third parties.
- 97 To add some other differences, all proposals allow the choice of law at any time (before or after the dispute arises), except for Transparency, which seems to allow it only after the dispute arises. Also, ALI, Kopila and Joint JK proposals explicitly allow the choice of the applicable law for all or part of the dispute, whereas CLIP and Transparency proposals

do not mention this. Furthermore, ALI specifically addresses the validity of the contract, capacity issue and choice of law by parties in mass-market agreements. CLIP regulates validity and other issues by reference to art. 3:501 (freedom of choice in contracts). According to Kopila and Joint JK proposals, the existence and validity of the contract are regulated by the law chosen by parties.

II. Rationale

- 98** The possibility for parties to choose the law applicable to IP disputes is a novel deviation from the territoriality principle. The main question here is why all the proposals have decided to introduce this novel rule and why party autonomy has been limited only to infringement-related issues.
- 99** As a general matter, the groups have realized advantages of party autonomy in tort cases. For instance, according to the drafters of the Transparency proposal, first, tort claims are widely accepted to be discretionally disposed by the parties in many jurisdictions and they do not have a strong public nature. Second, the rules between the parties become clearer and it contributes to the resolution of the conflict. Third, it conforms to the need for credibility and legal certainty.²⁴³ Similarly, ALI argues that “(...) efficiency interests are better served by allowing the parties to agree among themselves on the law that will determine what will usually be the monetary consequences of their conduct.”²⁴⁴ Accordingly, the question has been raised by the groups why a choice of applicable law by the parties in intellectual property infringement has been out of question in most jurisdictions.²⁴⁵
- 100** Two main reasons have been identified for such restrictive legal practice. First, the Transparency group has pointed to the criticism that a change of applicable law by the parties may have effects on third parties. However, the group denied this problem arguing that a choice of law agreement is only effective *inter partes* and it does not effect such elements as the validity of an IP right, which may violate the interests of third parties.²⁴⁶ Second, as pointed out by the ALI, IP rights have been seen as a part of public policy and strictly territorial; the choice of applicable law has thus been out of question. However, the ALI has also noticed that party autonomy has recently been given an increasing role in the resolution of IP disputes (e.g. by allowing arbitration).²⁴⁷ Furthermore, in order to overcome this public policy problem most proposals have limited party autonomy to infringement-related issues. Sovereignty interests are mainly related to the validity of registered rights and other public-law issues. Thus, such issues have been excluded from the scope of party autonomy and states' public policy interests have been ar-

guably preserved.²⁴⁸ On the other hand, CLIP group noticed that even damages, as one of the infringement-related issues, can be closely related to state's public policy.²⁴⁹ ALI also notes that injunctive relief brings the public policies of the affected States more closely to the fore. However, the preservation of local mandatory rules would arguably allow a court to take those interests into account notwithstanding the otherwise applicable law.²⁵⁰

- 101** Differently, Joint JK Proposal allows contractual choice of law with respect to both infringement-related and proprietary issues. It is justified by the need for efficiency in IP dispute resolution,²⁵¹ which is prioritized over states' interests.

III. International context

- 102** Some European countries (e.g. Germany²⁵² and Austria²⁵³) have explicitly rejected the choice of law by parties in IP infringement. In some other European countries no similar explicit prohibition has existed (e.g. Belgium)²⁵⁴ or a limited party autonomy has been allowed. For instance, Swiss law allows parties to choose the applicable law in IP disputes.²⁵⁵ Party autonomy is, however, limited in three ways. First, parties are allowed to choose the applicable law only after the dispute has arisen (i.e. *ex ante* agreement is not possible). Second, the scope is limited to the “claims arising out of an infringement.” According to Swiss doctrine, party autonomy is possible only with respect to the claims that are not intrinsically linked to the IP rights as such.²⁵⁶ Third, parties can choose the application only of the forum law. In contrast, the Rome II Regulation has followed German legal practice and explicitly precluded party autonomy in IP cases.²⁵⁷ While drafting the Rome II Regulation, the European Parliament during the first reading proposed to extend party autonomy to IP disputes.²⁵⁸ However, the final version of the Regulation excluded such a possibility. Such a restrictive approach of the Rome II Regulation has been criticized in doctrine.²⁵⁹

- 103** Some non-European countries seem to allow at least a limited party autonomy in choosing applicable law in IP disputes. For instance, Japanese law generally allows choice of law by parties in tort cases.²⁶⁰ Although it does not specify anything on IP torts, according to some commentators, since damages are qualified as an issue of tort²⁶¹ the choice of law by parties in IP disputes shall not be prevented, at least with respect to damages.²⁶² Furthermore, a recent Chinese PIL law follows a Swiss law approach and allows a limited party autonomy: it allows parties, after the dispute arises, to choose the forum law as an applicable law for their dispute.²⁶³ Interestingly, Chinese PIL statute has no (explicit) limitations in

regard to issues that would be governed by the chosen law.

IV. Discussion

104 The proposals have made an important step forward by granting a limited party autonomy in IP infringement cases. The following paragraphs will overview the arguments for an even more extensive party autonomy in such situations (e.g. as suggested by the Joint JK group). It will first take a short historical look at party autonomy in contract and tort cases and then see how far the arguments in those fields can be extended in the IP field.

105 Starting with party autonomy in general, major authors in France, Germany and Italy at the turn of twentieth century have denied party autonomy in choice of law to *contracts*.²⁶⁴ The main arguments against it have been as follows.²⁶⁵ First, the parties' freedom to contract cannot go beyond the dispositive norms of the relevant substantive law because otherwise parties would have excessive power to circumvent any mandatory rules. The parties should not have as much power and discretion as a legislator. Second, the existence and validity of parties' consent to choose the applicable law must be judged by a certain law. This law cannot be the one chosen by parties, because the governing law is not determined until the parties' consent is confirmed as valid. It was until the 1930s that the criticism of party autonomy in applicable law to contracts was overcome in Germany. Today party autonomy is a fundamental principle of private international law in matters of contractual obligations in Europe²⁶⁶ and is accepted in almost all countries worldwide.²⁶⁷

106 In applicable law to *torts*, party autonomy has been playing an increasing role in Europe since 1970s. Most laws that expressly address this issue allow contractual choice of law by parties to a certain extent.²⁶⁸ However, the discussion is still active. Before the adoption of the Rome II Regulation the opinion was widespread that there was little need for party autonomy or even that it was not desirable. After the adoption of the Rome II Regulation, commentators continue to argue that this will barely expand the scope of party autonomy in practice but is rather meant to stir the academic debate.²⁶⁹ It is arguable that Article 14 of Rome II Regulation will be a dead letter. First, parties are strangers before the damage occurs. They will not be willing to agree on the applicable law *ex post* since tort laws differ in national jurisdictions and one of the parties will be disadvantaged. Second, if parties are already in a relationship and a tort that relates to that relationship occurs, it would anyway be governed by the law of that relationship ("pre-existing relationship" rule)

and thus the *ex ante* party autonomy rule becomes superfluous.²⁷⁰

107 Other commentators defend party autonomy in tort cases. First, the injured party always has a possibility to bring a claim or refrain from bringing a claim; also, parties can settle out of court and compromise. Thus the injured party should be able to settle the applicable law together with the defendant. Second, contractual choice of law helps to eradicate any doubts as to applicable law and reinforce legal certainty. Third, parties can subject all legal relationships, contractual and non-contractual, to the same applicable law. Also, parties are in the best position to know which law will best protect their interests. Regarding practical relevance, Dutch legal practice shows that parties have used the possibility to agree on the applicable law for reasons of procedure and practical convenience (most often by choosing Dutch law as a forum law).²⁷¹ Parties may also have a reason to choose the application of forum law when the objective-connecting factors lead to the application of foreign law, in which case choosing forum law would make the procedure less complicated for both the parties and the court. Further, the above mentioned "pre-existing relationship" rule arguably introduces party autonomy through a "back door" and it would be more useful to formulate party autonomy as an explicit rule instead. In addition, one should notice that courts recognize a tacit choice of forum law in some cases. When applicable law rules refer to a foreign law but a plaintiff argues on the basis of forum law and the defendant does not challenge this, courts often apply forum law.²⁷²

108 Turning to party autonomy in IP infringement cases, one should note that there is very little discussion on this issue. Keeping the above arguments in mind and taking into account the particularities of IP rights, one could sum up the main arguments against party autonomy as follows. First, one may argue that the national treatment provision found in the international instruments implies *lex loci protectionis* and thus excludes the possibility of applying any other law including the one chosen by parties.²⁷³ Second, territorial nature of IP rights (or in other words, public policy aspects underlying IP rights) does not allow parties to choose law applicable to IP issues.²⁷⁴ Parties cannot, by their agreement, create IP rights or make them ineffective, or extend or narrow down their scope. Only a legislator can determine the existence and scope of IP rights.²⁷⁵ Third, (tangible) property rights are normally subject to *lex rei sitae* and party autonomy is not permitted here.²⁷⁶ Accordingly, at least proprietary aspects of IP rights should be subject to a similar *lex loci protectionis* rule from which parties shall not be allowed to deviate by agreement. Also, third parties' interests may be endangered if parties are allowed to choose what law governs such issues as existence, initial ownership, duration and scope of IP rights. Last but not the least,

similar to general discussion related to torts, one can argue that party autonomy in IP disputes would have little practical relevance.²⁷⁷ Also, a separate rule on ex ante party autonomy is unnecessary if a pre-existing relationship rule is provided.²⁷⁸

109 Obviously, these arguments are contestable. First, many authors and some courts have denied the applicable law nature of the national treatment provision found in international treaties arguing that it is a mere non-discrimination clause.²⁷⁹ If international treaties imposed the application of *lex loci protectionis* in all IP cases, *lex originis* as applied to initial ownership issues in the U.S. and France or partial party autonomy as allowed in IP tort cases under Swiss PIL would be in violation of international obligations. The same problem would arise in respect of the closest connection rule as proposed for ubiquitous infringements in all analyzed proposals (see later discussion).

110 Second, it is true that IP rights to some extent reflect states' public policies. States regulate the development of their economic, information society or cultural policies by deciding whether to grant a particular IP right and to what extent. However, this argument resembles an argument in regard to dispositive norms and party autonomy in contracts discussed a century ago.²⁸⁰ In the latter case it has been realized that not all contract law norms amount to public policy and the most important ones may be protected by developing exceptions to party autonomy²⁸¹ or by mandatory rules or public policy exceptions. Also, although tort liability rules in tort cases may differ from state to state (e.g. in environmental torts), EU states in Rome II Regulation have decided to allow parties to choose the applicable law in tort cases.

111 Can similar arguments be applied to party autonomy in IP infringement cases? First, one would have to determine which IP provisions are of particular importance for states' policies. Proprietary issues are more likely to be recognized as a part of public policy, whereas infringement-related issues (remedies, third party liability, etc.) are less likely to be treated as such.²⁸² Furthermore, one should keep in mind that there might be a conflict between state's interest to preserve their policies related to IP rights and private parties' interests to efficiently enforce multi-state infringements of IP rights. For instance, in the case of copyright infringement occurring online, states are interested in deciding the extent of copyright for online rights as far as infringement occurs in (or affects) their territory. On the other hand, right holders, for efficiency reasons, may prefer applying a single law for the entire infringement even if that law would grant fewer rights than the laws of some of the countries covered by the dispute. Taking this conflict of state and private parties' interests into account, all analyzed proposals have suggested

limiting states' territorial interests by applying a single law having the closest connection to the entire online infringement. Importantly, the possibility to enforce each state's law is retained through an exception – though parties are free to apply it or not.²⁸³ The same argument may apply in respect of party autonomy: in case there is a need to facilitate enforcement of IP rights and a party autonomy rule is able to do that, states might need to partially give up public policy interests.

112 In addition, one should ask whether state's public policies would be effectually ignored in cases where the law chosen by parties applies. One should keep in mind that a significant international harmonization of IP rights (especially copyright) has been reached. Thus, in many cases the application of foreign law would lead to the same result as the application of local state's law. For instance, in cases when unauthorized content is reproduced and made available online for commercial purposes, the infringement is likely to be found under the laws of all TRIPS signatory states. Thus, in such cases the application of a law of a single TRIPS state (e.g. chosen by parties) would not harm the public policies of states but rather better protect them by enabling a more efficient enforcement of cross-border IP rights.

113 Third, it is true that applicable law rules to property rights do not allow party autonomy since it is for the states and not the parties to decide the emergence and scope of a right.²⁸⁴ Similar reasoning is particularly valid for industrial property cases.²⁸⁵ The situation, however, is different in case of copyright. In contrast to tangible property rights, copyright assets are of an intangible nature and thus simultaneously exist in a multiple number of states and can very easily be multiplied. Thus, the exercise and enforcement of right differs significantly. Further, different from registered (industrial) IP rights, copyright emerges almost worldwide at the moment of creation (or fixation) of the work. Also, new information technologies lead to potentially worldwide infringement (as opposed to a registered trademark, which would be potentially infringed only in the country of registration). As argued above, although the states might be interested in preserving their copyright policies online, they should also keep in mind the enforcement interests of parties, which eventually corresponds to the interests of states themselves. Also, the argument that the parties' choice of law in IP infringements may affect third party interests cannot be upheld. The agreement, as a rule, is valid only *inter partes*; this has also been explicitly stated in most of the analyzed proposals (except for CLIP). This means that the decision based on a chosen law cannot affect the interests of parties' creditors, competitors, or any other parties.²⁸⁶

114 Last but not the least, the issue of practical relevance needs to be addressed.²⁸⁷ It is true that in most cases

it would be difficult or impossible to reach an ex post agreement since parties go to court only when no satisfactory solution outside of the court can be reached. Further, a provision allowing an ex ante agreement becomes largely superfluous if a pre-existing relationship rule is available.²⁸⁸ Also, neither IP doctrine nor practice has until now identified a clear need for party autonomy in IP enforcement cases. However, according to the author's opinion, with the increasing number of cross-border cases, especially on the Internet, a need might become more apparent. A single use on the Internet automatically leads to a potentially worldwide infringement. At the same time, national laws on online copyright liability (especially secondary liability standards) are different or not clear. In order to avoid proceedings in several states (or in one state under several laws) and related costs, parties may wish to agree on a single applicable law that would lead to a decision with worldwide effects.²⁸⁹ This might be especially relevant when both parties are major commercial entities. It would also be useful for a weaker party (e.g. author) who does not have enough resources to adjudicate an online dispute under numerous laws.

115 In addition, one could argue that the adjudication of online cases is already facilitated by the ubiquitous infringement rules proposed by all analyzed proposals. However, it is first doubtful if these rules are to be applied to secondary liability cases.²⁹⁰ Second, even if the ubiquitous infringement rule were applied, the closest connection rule, as proposed by most proposals, does not allow parties to foresee the applicable law in advance and may refer to a foreign law.²⁹¹ Meanwhile, in order to facilitate the proceedings, parties may be willing and ready to agree on the application of forum law for the entire dispute. Also, an exception contained in the ubiquitous infringement rule in all proposals allows any of the parties to claim another law leading to a different solution. "Surprises" that the application of this exception may cause are avoidable if parties agree on the applicable law. Actually, if the defendant does not dispute the applicable law suggested by the plaintiff and no party makes a use of the exception, it has the effect of creating a tacit agreement between the parties to apply the law suggested by the plaintiff. In current practice in online infringement cases, such "tacit agreements" are accepted by courts: if forum law is claimed and the issue of applicable law is not raised by parties, courts normally do not raise the issue of applicable law at all.²⁹²

116 In conclusion, although there are good reasons to exclude proprietary issues from party autonomy as a general matter, one may argue that in ubiquitous infringement cases the unlimited party autonomy would be both reasonable and useful.

H. De minimis rule

Art. 3:602 CLIP; art. 305 Joint JK

I. Differences

117 The de minimis rule has been suggested primarily by CLIP group (art. 3:602 CLIP) and later followed, with some amendments, in Joint JK proposal (art. 305).²⁹³ CLIP rule, in short, allows courts to find an infringement only in the country where there is a substantial conduct or substantial effects, unless the court exceptionally decides to derogate from this rule when "reasonable" under the circumstances of the case. The rule is formulated as a substantive law rule rather than an applicable law rule.²⁹⁴ The rule suggested in the Joint JK Proposal differs from the CLIP one. However, at least in its English translation, it is quite vague and difficult to comprehend.²⁹⁵ It is titled "Recognition of Infringement Due to Extraterritorial Activities" and seems to require courts to apply the law of the protecting country only if the conduct is directed to the state of protection and there is a threat of direct and substantive injury within its territory. In addition, the rule seems to be limited to secondary infringements.²⁹⁶ This rule, similar to the CLIP de minimis rule, is formulated as a substantive law rule. However, different from the CLIP Proposal, it refers only to the place of targeting and market effects and thereby excludes the place of a mere conduct.

118 Other proposals do not contain any similar rules. It is worth noting, however, that a similar approach has been discussed by the ALI group. The ALI Preliminary Draft suggested a "market effect" rule (the content of which is similar to that of the de minimis rule).²⁹⁷ However, it was suggested as a main applicable law rule for IP infringements (i.e. instead of *lex loci protectionis*). It allowed (and required) applying the law only of that country where market effects were felt, regardless of where the infringing conduct occurred. Although this market effect rule was abandoned in later drafts in favor of the traditional *lex loci protectionis*, the drafters of the ALI Principles still believe that *lex loci protectionis* is compatible with the market oriented approach.²⁹⁸ Similar to the ALI, Transparency group discussed – and eventually adopted – a market effect rule as a main applicable law rule but only for IP infringements (but not to IP rights as such).²⁹⁹ Again, it differs from the CLIP de minimis rule in at least two respects. First, the market impact rule in the Transparency proposal is formulated as an applicable law rule (and not as a substantive law rule in the CLIP Proposal). Second, it refers only to the "results of the exploitation" (i.e. market effect) and in this way prevents the application of the law of the place of (substantial) conduct;³⁰⁰ the latter is explicitly allowed under the CLIP de minimis rule.

II. Rationale

119 The initial goal of the CLIP de minimis rule was, and has been, to prevent the application of a state's law where the effects are insubstantial (de minimis). The market impact rule implemented in the 2001 WIPO Recommendation was the main inspiration. Its scope, however, was substantially broadened. Whereas the 2001 WIPO Recommendation applied only to trademark cases online, the CLIP de minimis rule applied for all IP infringements and in all types of media.³⁰¹ However, the expansion of the market effect rule, as found in the WIPO Recommendation, would have led to a significant decrease of the number of potentially applicable laws. For instance, it is likely that a "pure" market effect rule would have prevented a finding of the infringement in the country where the broadcasting signal was emitted if no signals were received (and thus, no market effect found). This would have possibly contradicted the established legal practice.³⁰² For this and other reasons the initial CLIP rule was amended by including the "substantial action" element. Now, the infringement can be found where *either* the substantial conduct or substantial effects could be allocated. In addition, a possibility was created for the courts to derogate from this rule when "reasonable" under the circumstances of the case.³⁰³ This exception was intended to cover, for instance, disputes over moral rights when both the substantial conduct and substantial effects in the country were difficult to establish. As a result, it has become questionable in which cases this rule will be of use.

120 Interestingly, whereas the WIPO market effect rule and the CLIP de minimis rule has the intention to limit the number of laws under which infringement may be found, the purpose of the de minimis rule in the Joint JK Proposal seems to be the opposite – namely, it is to extend the scope of protection³⁰⁴. The Joint JK group refers in their explanatory notes to two cases in Japan and South Korea where the courts employed a strict territoriality approach and allowed finding the infringement only under the law of the country where the infringing conduct took place.³⁰⁵ Then they note that "the strict territoriality rule employed in both cases has become outdated in the era of globalization and fails to offer sufficient protection for intellectual property rights (...)."³⁰⁶ The de minimis rule suggested in the Joint JK Proposal is intended to address this problem, but it is not sufficiently explained how.

III. International context

121 The examples of different variations of market impact rule inside and outside the field of IP law have been enumerated above, such as the market effect rule provided in 2001 WIPO Recommendation or U.S.

targeting theory.³⁰⁷ It is just worth adding that the CLIP de minimis rule differs from those rules in various respects. For instance, as mentioned above, it differs from the market effect rule in the WIPO Recommendation with regard to its scope: the latter is applied only to trademark infringements occurring online, whereas the former covers all IP rights and all types of media. Also, whereas WIPO refers only to "commercial effects" and thus excludes "substantial conduct," the CLIP covers both of them. U.S. targeting theory also requires targeting (which is similar, but not necessarily identical, to the effects test) and is formulated as a private international law doctrine rather than a substantive law doctrine.

IV. Discussion

122 The CLIP de minimis rule is to a certain extent similar to the market impact (effect) rule as proposed in the Transparency proposal and discussed above. However, since it differs from it in several respects (most importantly – it includes a "substantive conduct" element and is formulated as a substantive law doctrine), the above outlined arguments are valid *mutatis mutandis*.

123 First, it can be asked whether there is a need to limit the number of laws under which infringement can be found for all IP cases and all media. The purpose of the 2001 WIPO Recommendation was obvious. The use of trademark online could be subject to the laws of multiple states where the same or similar sign could be owned by different persons. Thus a limitation of the number of laws under which the infringement could be found was necessary. A similar solution has been discussed in doctrine³⁰⁸ and to certain extent adopted for copyright infringements online, though with limited results.³⁰⁹ However, it is a question for debate whether there is an apparent need to expand this rule to all IP rights and all media in general. It should be noted, that such a rule, if expanded to all media, may effectively limit the scope of protection. Similar like the market effect rule, in order to find the infringement, it requires the establishment of substantial effects whereas normally, substantial conduct is sufficient, at least in copyright infringement cases. As shown before, according to the established case law in different countries, the uplink of the satellite broadcasting signal is sufficient to find the infringement in the uplink country, whereas under the market effect rule this would be insufficient. Whether such a limitation is reasonable or not is a question of policy and should probably be better harmonized in a substantive law instrument. Thus, taking these (and other) potential problems into account, the CLIP has modified the de minimis rule and included a "substantial conduct" element as well as an exception.

124 Having this new formulation in mind, the second question arises as to what cases the CLIP de minimis rule intends to cover. It seems to prevent finding infringement only in the cases when there is no substantial conduct and no substantial effects in the state. However, very few such cases are likely to be raised before courts. In addition, courts are granted the discretion to derogate from this rule, i.e. they may still apply the law of the particular state even if there are neither substantial conduct nor effects in that state. This seems to make the rule even less effective and less predictable.

125 Third, its relationship to other rules of a similar nature found in the international and regional instruments needs to be clarified. For instance, it may conflict with the market impact rule in the 2001 WIPO Recommendation. Whereas under the latter a trademark infringement will be found only in the country where the substantial effects are felt, under the CLIP de minimis rule the infringement will be found also under the law of the country where a substantial conduct took place. Further, under the EU Cable and Satellite directive³¹⁰ the infringement of copyright and related rights through satellite broadcasting media occurs only in the country of emission, whereas under the CLIP de minimis rule it can also be found in the country of substantial effects (i.e. substantial receptions). The last issue to consider is a rather formal one. The de minimis rule is a substantive law rule and it is questionable how, from a systematical point of view, it fits into an international private law instrument.

126 Overall, it is doubtful what added value the CLIP de minimis rule in its current formulation would bring in the resolution of IP disputes.

I. Ubiquitous infringement

Sec. 321 ALI; art. 3:603 CLIP; art. 302 Transparency; art. 21 Kopila; art. 306 Joint JK

I. Differences

127 All proposals, except for Transparency project, provide very similar rules for ubiquitous infringement, which follow a single-law approach and consist of three elements: the closest connection rule, the set of connecting factors that should facilitate the determination of the law with the closest connection and the exception allowing parties to “retreat” back to territorial approach. Transparency proposal also follows a single-law approach but it suggests a different applicable law rule instead. It refers to the law of the country where the effects of the exploitation of the right are (or to be) maximized (“maximum re-

sults” rule) with the possibility to exclude a country from the universal application of the selected law.

128 The formulation of the closest connection rule, however, differs slightly in the proposals. Firstly, CLIP, Kopila and Joint JK proposals provide for the “closest connection” rule, whereas ALI refers to the “law or laws” with the “close connection.”. Secondly, whereas Kopila and Joint JK proposals (as well as Transparency in regard to its rule) require (“shall”) the courts to apply the closest connection rule for multiple state infringements, ALI and CLIP merely allow (“may”) courts to do so; this means that the courts are allowed in certain cases (which ones?) to apply a general rule (*lex loci protectionis*) instead.

129 Thirdly, the closest connection is determined in a slightly different way. All proposals containing this rule provide with a list of factors in order to determine the closest connection. Whereas in the ALI and CLIP proposals the lists contain mere examples, in Kopila and Joint JK proposals, they seem to be exhaustive. In addition, the Kopila proposal is the only one that provides a default rule of defendant’s residence in case the closest connection can not be established (art. 21(3) Kopila). Although draft ALI and CLIP proposals used to contain default rules (ALI – *lex fori*,³¹¹ CLIP – defendant’s residence³¹²), they have been abandoned in later versions. The suggested connecting factors also differ to some extent. Whereas ALI contains broader and party-neutral criteria, CLIP connecting factors seem to be narrower and more favorable to the infringer than to the right holder.³¹³ Kopila and Joint JK proposals suggest a compromise approach – they largely overtake the factors found in the CLIP proposal but in addition request taking into account the place where right holder’s principal interests are located (arts. 21(1)(3) Kopila, 306(2) (iii) Joint JK proposal).

130 The Transparency “maximum results” rule follows the market impact rule as a main rule governing IP infringements.³¹⁴ The commentators explain how “maximal results” should be estimated: “[t]he maximized result of exploitation is not reduced to the amount of damages from a substantive law perspective, but based on the amount (quantity) of exploitation such as extensive downloading in a specific jurisdiction.”³¹⁵ Also, the results should be determined at the time when the action is filed; if the situation changes afterwards, it should be treated as another “ubiquitous infringement” and another law of the place where the results are maximized should be applied to solve that distinct problem.³¹⁶

131 The proposals seem to slightly differ on what types of infringement the suggested rules cover. The CLIP group seems to suggest the narrowest definition – it requires that the infringement takes place over ubiquitous media (Internet) and that it “arguably occurs in each state where the signal is received”. ALI pro-

posal has a slightly broader formulation: it also requires ubiquitous media but a second requirement – “if the laws of *multiple* states are pleaded” – sounds less strict than a similar requirement in the CLIP proposal. It also seems that disputes covering several (but not all) countries worldwide are covered. Transparency proposal simply refers to the “ubiquitous infringement” but it is not clear whether it implies the requirement of ubiquitous media (conduct), ubiquitous infringement, or both.³¹⁷ Kopila and Joint JK proposals seem to be broader – they cover not only ubiquitous (Internet) infringements but also other infringements occurring in “multiple states” that are unspecific or unidentifiable. Such wording also seems to cover some multi-state offline cases.

132 Under the ALI and CLIP proposals the law chosen under the ubiquitous infringement rule regulates both infringement-related issues (infringement and remedies) and most proprietary issues (existence, validity, duration, limitations),³¹⁸ whereas initial ownership and transferability are not covered by this rule. In contrast, Kopila and Joint JK proposals additionally include assignability and the effects of the assignment in the scope of the rule. Transparency proposal mentions only “infringement” and leaves it open for interpretation what this concept encompasses. According to its drafters, “infringement” covers only remedies whereas all proprietary issues, including initial ownership and transferability, are excluded from the rule.³¹⁹

133 All proposals provide a very similar exception to the single-law approach adopted for ubiquitous infringement cases. The exception allows parties to claim that the law(s) of some other state(s) provide a different solution from the laws of the country chosen under the closest connection rule, and thus courts should take this into consideration when determining a remedy.³²⁰ The wordings of the exceptions do have some important differences, which are as follows. First, ALI, CLIP and the Joint JK proposals allow *any* party to claim this exception;³²¹ Kopila proposal allows only the defendant to make use of it; and the Transparency Proposal does not specify on this at all. Second, ALI, CLIP and Joint JK proposals seem to set the burden on the claiming party to prove the differing law,³²² which in most cases would be the infringer. In comparison, Kopila proposal suggests that each party may “argue,” which seems to leave courts with more flexibility in allocating the burden of proof between parties. Transparency proposal is silent on this and thus could be seen as leaving discretion to courts to allocate the burden of proof. Third, legal consequences of the other differing law are worded a bit differently. Under the ALI proposal, such differences should be taken into account when fashioning the remedy. Joint JK proposal adds “unless this would lead to inconsistent decisions.”³²³ CLIP suggests applying both laws (i.e. those selected under the closest connection rule and

proven by party) and, only when this would lead to inconsistent decisions shall differences be taken into account when fashioning the remedy. Kopila proposal prevents courts from prohibiting or limiting activities in the country with differing laws, however, still allows such prohibition/limitation when it is “inevitable for appropriate protection of the rights of the person whose IPRs were infringed.” Transparency proposal simply requires courts not to apply the chosen law in respect of the other country. How far these different wordings would result in different results is not clear.

II. Rationale

134 All groups have tried to combine a single-law approach with an exception allowing a retreat to the territorial approach. According to the ALI, “[t]he Principles endeavor to meet the territoriality and single law approaches halfway. They seek to gain the simplification advantages of the single law approach by identifying the State(s) most closely connected to the controversy, but they also strive to respect the sovereignty interests underlying the territoriality approach.”³²⁴ A similar argument has assumingly been followed by all groups.

135 A selection of the rule allowing for the determination of a single applicable law has been a difficult task. The closest connection rule has been chosen by most groups as a flexible rule that helps to avoid “forum shopping” and “race to the bottom” problems that other more specific rules would cause.³²⁵ Instead, the Transparency group analyzed several options: (1) §321 of the ALI Principles, (2) CLIP Principles, (3) choice of law by the claimant, (4) habitual residence of the right holder, (5) habitual residence of the alleged infringer, and (6) law of the place where the results of the exploitation of intellectual property are maximized. Options (3) to (5) were rejected mainly because of possible „law shopping“ either by the right holder (option (3)) or the infringer (option (5)). The closest connection rule suggested by the ALI and CLIP proposals were rejected because of the lack of legal foreseeability.³²⁶ Thus, the last option – the place where the results of the exploitation have been maximized – has been chosen. It is also in accordance with the market effect rule as suggested by the Transparency proposal for other (offline) infringements.

136 The closest connection rule varies slightly in the proposals. Different from other proposals suggesting the “closest connection”, ALI prefers a “close connection” rule. The reason is not entirely clear; the intention may be to merely enable the parties the opportunity to apply an additional law under the exception. Alternatively, it may presuppose that (even without applying the exception) the court may de-

cide (on plaintiff's or its own motion?) to apply several laws if several of them have a sufficiently close connection to the dispute.³²⁷ The effect is that ubiquitous infringements would not necessarily be subject to a single applicable law. Furthermore, both the ALI and CLIP proposals "allow" but do not "require" courts to apply the ubiquitous infringement rule. This supposedly means that general rule (*lex loci protectionis*) may also be applied (on plaintiff's or also on court's motion?) for the adjudication of ubiquitous infringement. This enables the plaintiff to choose under which rule to adjudicate the dispute – if a closest connection rule is not advantageous for the plaintiff (i.e. it refers to a law with insufficient protection standards), he/she can choose to apply the law of the protecting country instead and at least obtain territorial remedies. Such a careful (non-binding) wording of a ubiquitous infringement rule has most likely been chosen taking into account the novel nature of the rule and the difficulties of predicting how it will be applied and what problems it may cause in practice.

137 All proposals containing a closest connection rule suggest an (open-ended or exhaustive) list of connecting factors, which should facilitate the determination of the law with the closest connection. The combination of several factors allows for the avoidance of the disadvantages of each single connecting factor (such as potential law shopping by the infringer or the right holder). The Kopila proposal's default rule provided is supposed to ensure some legal certainty in case the closest connection rule does not lead to a clear result. In the CLIP proposal, a similar default rule (referring to the defendant's domicile) has been abandoned as superfluous after the connecting factors had been redrafted in favor of the defendant. The drafts of the ALI Principles used to suggest connecting factors in a "cascading" order with *lex fori* as a default rule; this approach however was also abandoned in later versions of the Principles, which embraced a more dominant role for territoriality.³²⁸ Regarding the specific connecting factors, in the ALI proposal, they were inspired by the list of factors set out in the US Restatement of Foreign Relations § 403(2)(a)-(h).³²⁹ Keeping in mind that a right holder already has the advantage of choosing the court in which the dispute will be adjudicated, the CLIP group has opted for more defendant-oriented rules instead.³³⁰ The Joint JK group has tried to select the connecting factors that "can easily be discerned and grasped."³³¹

138 Regarding the types of infringements that the rule covers (only Internet or also other multi-state cases), at least the CLIP group deliberately wants to limit the ubiquitous infringement rule, as a significant exception to territoriality, only to indispensable cases.³³² They believe that even if offline infringement takes place in multiple states, the parties would manage to adjudicate the infringements under the laws of sev-

eral states and no single-law rule is needed. Also, in the CLIP proposal the "ubiquitous infringement" requirement is supposed to exclude online trademark cases as a general matter, since in only a very few cases will trademark rights be owned worldwide (i.e. in case of very famous marks).

139 Most proposals exclude initial ownership and transferability issues from the scope of the ubiquitous infringement rule assumably because of their high importance in states' copyright policies. In such a case they would be further determined under specific applicable law rules (*lex loci protectionis* or *lex originis* depending on the issue and on the proposal).

140 The exception that allows parties to prove a differing law provides for the possibility of preserving the application of national laws on their territory even in case of ubiquitous infringements. This, however, is possible only if it is of interest to the parties (i.e. if they decide to make use of the exception and claim a particular national law).

III. International context

141 There is no specific applicable law rule to ubiquitous infringements at an international, regional, or national level. The only more relevant international instrument dealing with this issue is the 2001 WIPO Recommendation, which provides a market effect rule for online trademark cases. It has been successfully applied by some national courts in trademark cases. A main example is a German Supreme Court decision in a Maritime Hotel case.³³³ Here, the court referenced the WIPO rule and examined whether the dispute had a sufficient connection to the forum. However, despite the website using *inter alia* German language and targeting customers living *inter alia* in a Germany, the connection to Germany was found to be insufficient and thus the claim was rejected. Importantly, the 2001 WIPO Recommendation contains a substantive law rule rather than the applicable law rule. Still, it is indirectly relevant for this study.³³⁴

142 National courts in most Internet infringement cases ignore the cross-border nature of disputes. Often, they do not discuss any private international law issues at all or confine themselves to shortly referring to jurisdictional questions.³³⁵ In rare cases, courts discuss whether the alleged infringing online conduct could be allocated in a specific forum³³⁶ or shortly refer to the *lex loci protectionis* (or *lex loci delicti*) rule.³³⁷ No cases have been identified where the courts applied foreign law for the adjudication of online infringements. Importantly, some courts have realized that the remedies in an online case may have extraterritorial effects and have examined whether these effects can be confined to a territory of the forum.³³⁸ Other courts, however, have applied

a more loose approach to the territorial nature of copyright in online infringement cases.³³⁹

IV. Discussion

143 Commentators outside the working groups have yet to analyze the ubiquitous infringement rule, as suggested in all of the proposals. As a general matter, all proposals suggest a good compromise between universal (or single-law) and territorial approaches. Whereas a single-applicable law allows right holders to get universal (worldwide) remedies, the exception retains a possibility for parties (mainly the defendant) to take advantage of the territorial nature of IP rights and apply the law of some state that is more advantageous for the party; at the same time this also helps to enforce states' IP policies in case of ubiquitous infringement, at least when this is of interest to the parties.

144 The first question to address here is what the advantages and disadvantages of the closest connection rule (as proposed by the ALI, CLIP, Joint JK and Kopila groups) are on the one hand, and what the advantages and disadvantages of the "maximum results" rule (as proposed by the Transparency group) are on the other hand. The closest connection rule is a highly flexible rule. In order to determine the law applicable to the case, courts are asked to take a variety of factors into account. On the one hand, this helps to overcome the disadvantages of each single connecting factor.³⁴⁰ On the other hand, it provides very little legal certainty and foreseeability, if any at all. Online users, especially good-faith e-commerce service providers need to know, in advance, which law governs their conduct. However, it is almost impossible for them to foresee what law will be in closest connection to the conduct. They thus cannot know which legal requirements they should obey. The default rule available in the Kopila proposal may slightly increase the predictability but it is applied only as a last resort when no other clear results can be determined, and thus it is barely sufficient. Right holders also cannot know in advance what law would be applicable to the case.³⁴¹ Thus, in order to avoid these risks, they may decide to adjudicate the case on a territorial basis instead, i.e. by applying the *lex loci protectionis* rule. This further decreases legal predictability for users. The courts may also have trouble accepting such a flexible rule. Whereas a similar, most significant relationship rule is broadly accepted in common law (particular U.S.) legal practice, it is questionable whether it can be accepted in a continental law system where legal certainty and predictability are particularly significant. The latter jurisdictions may prefer seeing a clear-cut rule combined with the closest connection rule as an escape clause.³⁴²

145 Transparency's "maximum results" rule adopts a variation of the market effect rule, which has been partially followed by courts in some jurisdictions and often suggested in legal doctrine.³⁴³ Whereas a "typical" market effect rule allows finding an infringement in *any* state where the commercial effects are sufficient,³⁴⁴ Transparency proposal suggests applying a *single* law where the effects are maximized. By applying this connecting factor, potential forum shopping by both infringer and right holder is precluded. The place where maximum results are felt seems to be reasonable from the perspective of both a right holder (his/her interests were prejudiced in that market) and an infringer (conduct was directed to that market). Also, the rule seems, at first glance, to provide more legal certainty and predictability than the closest connection rule: in any given case, it should usually be easier to predict the country with maximum results than the country with the closest connection. However, there likely to be numerous cases where it is highly complicated or even impossible to determine the place with the maximum results (e.g., a website is in many languages, and the amount of exploitation results is similar in several countries). Also, the rule takes into account the place where the results are "to be maximized" – however, it seems quite difficult to predict the future.³⁴⁵ This rule also requires the court, when determining the applicable law, to engage in estimation of effects (or calculation of damages) when this is a question of substantial law. Furthermore, there might be cases that are closely connected to a state other than the one where the results of the exploitation are maximized (i.e., the state where effects are substantial, though not maximum, and both parties have a common domicile). The proposal does not suggest any exception, or "escape rule", for such situations.

146 The next question is what types of infringements the rule shall cover. Namely, one way could be to limit the application of the ubiquitous infringement rule only to acts carried out through ubiquitous media and that lead to arguably worldwide infringement (as proposed by CLIP). Alternatively, one could extend it to some other cases, i.e. online infringements that occur in a multiple states but not worldwide (the wording of the ALI and Joint JK proposals seem to allow this),³⁴⁶ or even to certain multi-state infringements occurring offline. The application of a single-law approach is limited only to the restricted number of cases where both the media and the infringement is ubiquitous because the exception to territoriality should be applied only to cases where it is indispensable, namely, where the efficient enforcement of rights otherwise becomes impossible. When it is possible to identify all states where the alleged infringement took place,³⁴⁷ one may argue that the rights can still be enforced under traditional rules (like *lex loci protectionis*). In such cases other international private law mechanisms can be put to use.³⁴⁸ It

is even more so in offline cases: even if the infringement takes place in several countries, the number of infringements is limited and right holders may find ways to cope with such cases.³⁴⁹ On the other hand, it can be pointed out that politicians, lawyers and right holders are currently searching for ways to improve enforcement mechanisms for both offline and online infringements as much as possible.³⁵⁰ If such a course of policy is upheld, the expansion of a single-law approach to a broader range of multistate infringement cases both online and for certain offline cases³⁵¹ could be a helpful legal measure at the level of international private law.

147 Third, all the proposals exclude from the scope of ubiquitous infringement rule initial ownership and, most of them, the transferability issue.³⁵² The main argument in favor of this solution is the need to protect the states' policies underlying these issues. The initial ownership and transferability issues are said to be one of the core issues of copyright policies; as their regulation differs significantly, the states may also want to preserve their policies in case of online infringement.³⁵³ On the other hand, it is questionable how such an exclusion of initial ownership and transferability issues would be applied in practice. It is especially problematic when these issues are subject to *lex loci protectionis* rule (e.g. CLIP, Transparency). Will the right holder have to prove that he/she owns the title to the works (or a right to sue) in each country covered by the dispute (i.e. in an unidentifiable number of countries)? This burden is likely to be too high and almost unimaginable in practice. It is more likely that courts would search for ways to simplify this burden by, for example, requiring proof of the title under forum law (or the law with the closest connection) and/or (implicitly) applying the presumption that the title is owned worldwide. In such a case, it would be ineffective to exclude initial ownership and transferability issues from the ubiquitous infringement rule. Furthermore, it would be left to the defendant to contest the title in any of the countries. However, it is questionable if the exception of the ubiquitous infringement rule could be applied in such cases. One may argue that since the ubiquitous infringement rule does not cover these issues at all, they cannot be raised in the framework of the exception either. On the other hand, the inclusion of these issues under the ubiquitous infringement rule also seems to be problematic. Initial ownership and transferability would then be governed under a single law with the closest connection. However, this does not allow the right holder to predict the law under which ownership issues will be determined.³⁵⁴ It is questionable how this would be dealt with in practice.

148 Interestingly, this problem is not as significant when a single-law approach is applied for initial ownership (e.g. creator's residence rule in ALI, Kopila, Joint JK).

Here, although the right holder might need to prove initial ownership under a law different from the one applicable to the entire infringement, there would be a single law and it would remain stable in respect to all infringements. The problem, however, remains in regard to the transferability issue. Since it is subject to *lex loci protectionis* rule in all proposals,³⁵⁵ it remains questionable how right holders are supposed to prove it in ubiquitous infringement cases.

149 The exception allowing parties to claim a differing national law should be welcomed since it helps reach a balance between universality and territoriality approaches in online cases. Although, as a general rule, a single law will govern an online infringement, the parties are allowed to invoke other territorial laws if they are favorable for them. On the other hand, as has been noticed by drafters themselves, this exception could lead to much litigation.³⁵⁶ Also, it could be misused by stronger parties who have resources and who wish to prolong proceedings to make it more costly for the other party.

150 Furthermore, the burden to prove a different law seems to lie on the party requesting application of the law, which in most cases is the defendant. Traditionally, it was the defendant who would have to prove that the right exists, that he/she owns the right, and that the use falls within the scope of rights. In the case of the exception, it is the defendant who should prove that this is not the case in some of the countries covered by the dispute. Shifting the burden might be reasonable in obvious infringement cases, such as where defendant is acting in bad-faith and on a commercial scale (*prima facie* "piracy" cases). However, its reasonability could be challenged in more complicated cases (i.e. when it is not clear if online use is covered by copyright exceptions and a defendant was acting under the belief that it was not infringing).³⁵⁷ One should consider whether it is more reasonable to explicitly leave the allocation of the burden of proof to the courts' discretion in each particular case.

J. Secondary infringements

Art. 3:604 CLIP; art. 305 Joint JK

I. Differences

151 Law applicable to secondary infringements,³⁵⁸ and in particular to those occurring online, has been an emerging and very important but little investigated issue. All groups have realized its importance but because of its complexity, it has not been addressed in most proposals.

152 ALI suggests in its comments that the “facilitation of infringement” is governed by the same law as the primary infringement.³⁵⁹ Interestingly, the issue of secondary liability online is not addressed by ALI when commenting on the ubiquitous infringement rule. Rather, the comments give an example of how the *lex loci protectionis* rule shall be applied to such online cases.³⁶⁰ Transparency group has discussed the problem and identified the problems when subjecting secondary infringement to different rules (e.g. to the law governing the primary infringement or to the law of Internet service provider’s (ISP) residence) but they did not propose any special rule.³⁶¹ The Joint JK proposal refers to secondary liability in art. 305. However, at least the rule’s English translation is difficult to comprehend.³⁶² In short, it allows finding the infringement in the protecting country only if direct inducement, accessory-ship and substantive preparatory acts are directed to that state and there is a threat of injury within that state. However, despite mentioning the acts that are meant to cover secondary infringement (direct inducement, etc.) the rule seems to rather establish a kind of market effect rule similar to the CLIP proposal’s de minimis rule.³⁶³ One can barely extract from it an applicable law rule to secondary infringements. Rather, the place of secondary activities is used as a factor to allow the establishment of the infringement on a substantive law level.

153 The only proposal that makes an attempt to formulate a comprehensive rule on secondary liability is the CLIP project. First, it sets a general rule that secondary infringement is governed by the law applicable to the primary infringement (art. 3:604(1)). Second, it suggests a rather complex rule for secondary liability online. In short, certain (online) secondary infringements are subject to a single law of the state where the “center of gravity” of those activities is located (art. 3:604(2)). However, the law selected under this rule applies only if it meets certain substantive law standards: it has to contain at least (a) liability for failure to react in case of a manifest infringement and (b) liability for active inducement (art. 3:604(3)). In addition, this rule is not applied in regard to ISPs’ information duty (art. 3:604(4)).

II. Rationale

154 The need for an applicable law rule to secondary infringements is obvious, especially in regard to online infringements. Right holders seeking to enforce their online rights first direct their efforts not against direct infringers (who are numerous, difficult to allocate and are eventually their customers) but rather against intermediaries (who are easier to identify and the prosecution of whom may more significantly reduce the infringement scale and ensure damages).³⁶⁴ On the other hand, the issue of second-

ary liability is highly complicated. The substantive rules on secondary liability strongly diverge from state to state; there is even no accepted agreement on what constitutes a “secondary infringement.” Secondary infringements offline and online are of a different nature and it appears to be difficult to cover them under the same rule. As a general matter, online primary and secondary liability standards are still constantly evolving.³⁶⁵ Furthermore, there are no statutes or legal practices on applicable law rules to such secondary infringements, which would provide a starting point for the drafters.³⁶⁶ It is thus understandable why, facing these and other difficulties, most of the groups abandoned the idea of suggesting an applicable law rule to indirect liability cases at this stage. Only very recently has CLIP come up with the first suggestion on this issue.

155 CLIP differentiates between “traditional” (offline) and multi-state (online) secondary liability. In the first case (art. 3:604(1) CLIP) they follow the prevailing approach in different jurisdictions that a secondary infringement is treated as ancillary to the main (primary) infringement and is thus governed by the same law as the latter.³⁶⁷ In contrast, a secondary infringement occurring online is treated autonomously from the primary infringement and is subject to an autonomous connecting factor (art. 3:604(2) CLIP). Such an approach is arguably consistent with the way the laws of secondary infringement appear to be developing.³⁶⁸ Facilitating conduct has already been adjudicated by courts independently from the question whether there is a direct infringement.³⁶⁹ Arguably, the tort underlying secondary liability serves different social purposes than the tort underlying primary (direct) liability. Thus, the autonomous connecting factor allows the law to better take into account the specific policy concerns related to secondary infringements.³⁷⁰

156 One of the difficult tasks when formulating the secondary infringement rule has been to define the legal object that the applicable law rule regulates (*Anknüpfungsgegenstand*). There is no unitary definition of what “secondary infringement” is; the same conduct may be covered by different indirect or direct liability rules in different jurisdictions.³⁷¹ For this reason CLIP does not mention such concepts as “secondary,” “indirect,” or “contributory” infringement in their rule but rather autonomously defines the legal object. Namely, the rule applies for “facilities or services being offered and/or rendered that are capable of being used for infringing or non-infringing purposes by a multitude of users without intervention of the person offering and/or rendering the facilities or services in relation to the individual acts resulting in infringement.” In short, four criteria should be met: (1) the conduct should constitute “offering and/or rendering of facilities or services;” (2) those facilities and services should be “capable of being used for infringing or non-infringing purposes;” (3) they

should be used “by a multitude of users;” and finally (4) there shall be “no intervention [by the secondary infringer] in individual acts resulting in infringement.” The rule may potentially cover a variety of activities. For instance, it is likely to govern Internet access provision, temporary storage, hosting of content, linking activities of search engines, online auctions, as well as more controversial online conduct such as file sharing services (such as BitTorrent sites) and services enabling circumvention of technical protection measures if they are capable of both infringing and non-infringing purposes.

157 Furthermore, the CLIP group has chosen the “center of gravity” as a connecting factor most likely because it is seen as ensuring both sufficient legal certainty and flexibility. The minimum substantive standards that the selected law shall meet have been added in order to ensure that the law applied to the entire online secondary infringement meets at least certain minimum standards on intermediary liability. Finally, information duty of ISPs has been excluded assumably because of its close relation to the data protection laws, which contain important public policy issues.

III. International context

158 As a general matter, there are no clearly and explicitly established applicable law rules on secondary infringements in intellectual property cases. The courts in different jurisdictions seem to treat secondary infringements as ancillary to the primary infringements and, thus, subject them to the law governing the latter (i.e. primary) infringements (e.g. UK,³⁷² U.S.,³⁷³ Germany³⁷⁴).

159 However, with the emergence of different forms of secondary liability online (e.g. for search engines, auction sites, host providers, etc.) this rule has become unsuitable. Since there are multiple primary infringements originating from different states, a claim on secondary infringement would need to be adjudicated simultaneously under all of these laws. Thus, having no clear applicable law solutions on an international or national level like in other online cases, courts have either been ignoring the cross-border nature of the online dispute or, satisfied with certain connections with the forum, have been applying their own forum law for the entire dispute.³⁷⁵ In regard to the scope of the remedies, some courts often do not mind granting remedies under forum law, which has extraterritorial effects,³⁷⁶ whereas others try to limit them territorially.³⁷⁷

IV. Discussion

160 As indicated above, the need of applicable law rules for secondary infringements is obvious. Thus, an attempt to formulate such a rule in the CLIP proposal can only be welcomed. Without intending to provide a thorough analysis of this rule, attention can still be drawn to several points, which may facilitate the discussion on whether this rule is proper for an international proposal. The following arguments will focus on art. 3:604(2)-(3) CLIP.

161 First, the wording of the provision is technology-neutral with regards to the legal object of the rule. As opposed to the ubiquitous infringement rule, it does not even mention “ubiquitous” media or multiple states. As a matter of principle, it may cover secondary infringements in any media if there are multiple direct infringers (and other criteria are met). One may thus ask whether it could also cover multi-state offline cases. For instance, could one apply the rule for the situation where a person residing in country A is organizing and facilitating (e.g. by providing devices, organizing marketing activities, etc.) the illegal reproduction and distribution of CDs in multiple other countries?

162 Second, the rule seems to cover all IP rights. The ubiquitous infringement rule, as proposed in art. 3:603 CLIP, will cover mainly copyright cases: trademark infringements are mostly excluded since the right holder can claim a worldwide trademark infringement in rear cases (e.g. famous trademarks).³⁷⁸ In contrast, the secondary infringement rule does not set any requirements comparable to the one in the case of ubiquitous infringement (i.e. the infringement shall be “arguably taking place in each country where the signals can be received”). That would mean that in case of direct trademark infringement, online parties will have to deal with each separate law under *lex loci protectionis* rule, whereas in the case of secondary infringement online the entire dispute will be covered under a single law of the state where the “center of gravity” of the infringing activity is found. Moreover, it is questionable how these two different rules are applicable in cases where the defendant is sued both under direct and secondary liability rules – this is a common practice when adjudicating IP disputes. Similarly, “offering and/or rendering of facilities or services” may cover both primary infringement (making available the content) and secondary infringement (enabling unauthorized downloading by end users). Thus, it needs to be clarified which applicable law rule – the one for ubiquitous infringement or the one for secondary infringement – applies.

163 Further, it is true that most online services are “capable of being used for infringing or non-infringing purposes.”³⁷⁹ One may however wonder, for exam-

ple, when the requirement of non-infringing use is met. For instance, in a case dealing with a hosting service on the Rapidshare website, German courts gave different answers: whereas the Hamburg court found the business model underlying the website as blatantly infringing,³⁸⁰ the Düsseldorf court found substantial legitimate purposes.³⁸¹ Also, one may ask what law will apply in case some service does not meet the “infringing and non-infringing purposes” requirement. For instance, software is designed and explicitly marketed for unauthorized exchange of music and video files and the software producer is aware that such exchange is illegal under the law of the targeted country. It seems that such activities are excluded from the secondary liability rule and remain subject to *lex loci protectionis*. Then, right holder would have to enforce such obvious infringements under the laws of each protecting country. Such burden is difficult to justify.

164 Another question is how far the secondary infringement rule will apply to secondary conduct if the primary activities (the use of service by end users) are legal. For instance, the defendant provides online file sharing service for consumers in several European countries. In the Netherlands, copying for private purposes is legal even if it is done from an illegal source,³⁸² while under German law private copying from obviously illegal source is illegal.³⁸³ The plaintiff seeks an European-wide injunction. Will the rule apply to this situation or, rather, is an (actual or potential) direct infringement in each country a prerequisite for the application of a secondary infringement rule under the CLIP proposal? The reference to the “individual acts resulting in *infringement*” in the CLIP provision seems to favor the latter option. On the other hand, it would be unreasonable to require the court, before choosing the applicable law rule, to first examine if there is a direct infringement in each state covered by the dispute. Thus, further clarification on how one should deal with such cases might be necessary.

165 Also, one should ask what would constitute an “intervention in individual acts.” If the host provider is filtering obviously illegal contents ex ante or ex post, adding advertisements to hosted sites, and organizing the structure of websites of individual users – will this be a sufficient intervention? The “active role” of hosting providers has been addressed differently in different jurisdictions and the ECJ has provided some guidance on this issue.³⁸⁴ Still, answering this question at the stage of applicable law may appear problematic. Overall, the definition of the legal object of the rule may need further clarifications.

166 Concerning the connecting factor, the CLIP proposal subjects secondary infringements to the law of the place where the “center of gravity” of the contested activities is located. The factor is flexible enough to minimize the danger of forum shopping by a poten-

tial infringer (i.e. by establishing itself in the country with no or low protection standards). One the other hand, one could ask how similar it is with the “closest connection” rule as provided for the ubiquitous infringements. As a general matter, both rules allow taking into account different factors when determining the applicable law and could be associated with the most significant relationship rule found in U.S. Restatement of Law (Second). Then, the center of gravity rule would lead to the closest connection rule’s same problems of lack of legal certainty and predictability.³⁸⁵ However, since a different title was chosen and no exemplary list of factors was proposed in case of a center of gravity rule, it is supposed to be different from the closest connection rule. The question then remains in which way.

167 Third, in contrast to the ubiquitous infringement rule, secondary infringement rule has no exception allowing the defendant to argue that other laws (than the one applied to the case) provide a different solution. This does eliminate the danger that many laws will be raised during the court proceedings.³⁸⁶ However, differing treatment of online direct infringement and secondary infringements needs a clear justification, especially since the delimitation of these types of infringements is difficult and the same conduct may fall under both definitions. Further, if the alleged infringer is ready to geographically differentiate its conduct in accordance with different national legal standards (i.e. by applying technological measures), it is questionable if this will be prevented by demanding the ISP to obey a single law for the entire worldwide activity. This could, of course, foster internationally unitary online services. On the other hand, this could force the ISP to even more carefully consider in which country they should further their services. They may be more willing to establish and further the services in the countries with less protection even when main target markets are in other countries. Then, additional difficulties in determining the country with the “center of gravity” would emerge. Also, since the “center of gravity” is often likely to be developed countries with high protection standards,³⁸⁷ the application of these laws with worldwide effects will mean the exportation of the highest protection standards to countries that have lower protection standards and are not ready or willing to accept the more stringent ones. Last but not the least, the possibility of enforcing such decisions with extraterritorial effects in other countries remains questionable.

168 Finally, several arguments regarding minimum substantive standards in the secondary infringement rule are indicated. The underlying rationale can be well understood: it is important to ensure that if a single law is applied to the entire online secondary infringement it shall meet at least certain minimum standards of IP protection. This has been of concern since the beginning of discussions on law applica-

ble to online infringements.³⁸⁸ The first issue here is whether the setting of substantial standards in an international private law instrument is appropriate at all. Although substantive law considerations have been taken into account when determining applicable law both in the U.S. and Europe,³⁸⁹ it is difficult to point to any PIL instrument that formulate substantive law standards in such an explicit way. The second problem is that there are no international standards on intermediary liability. The most recent efforts to do so at a multilateral level in the Anti-Counterfeiting Trade Agreement (ACTA) had been strongly criticized both by scholars and non-governmental groups,³⁹⁰ and was consequently abandoned by the negotiating parties.³⁹¹ Thus setting such a standard in a private international law instrument may indirectly incite creating such international rules on the one hand, while decreasing chances that the countries without substantive standards will be willing to apply this PIL proposal. Furthermore, the concepts used in the wording of the provision – such as “manifest infringement” and “active inducement” – are doubtlessly difficult to construe and are thus likely to lead to divergent interpretations. It will be in particular complicated (and politically incorrect?) if the court has to determine whether the foreign applicable law meets these standards. Overall, although the first attempt to formulate a rule on secondary liability is strongly welcomed, additional efforts to clarify some issues are invited.

K. Summary

169 In sum, all proposals have retained the territorial approach in disputes over IP rights as a general rule. However, because of the ambiguous notion of the *lex loci protectionis* rule, the drafters have chosen different wordings for the applicable law rules they suggested (e.g. country for which protection is sought, country of registration, country granting the right). Also, some proposals proposed different rules for registered and unregistered rights (ALI, Kopila, Joint JK). The scope of the proposed applicable law rule is mostly the same – leaving transferability and initial ownership issues aside, it governs all issues related to IP. The exception is the Transparency proposal where the IP rights infringements are subject to the law of the place where the exploitation results occur (“market impact” rule). It deviates from a traditional territoriality approach and is supposed to allow certain extraterritorial enforcement of rights. While the differences in the wording of the rules and the separation of registered and unregistered rights partly reflect different understandings of *lex loci protectionis* in national practice, the “market impact” rule proposed by the Transparency group is an innovative solution to the transborder cases. It is suggested, however, that the latter rule would be

too radical a move away from territoriality. Instead, clarifying the *lex loci protectionis* rule is suggested.

170 The determination of applicable law to initial ownership differs significantly in the proposals and is the most controversial issue. Regarding initial ownership to *unregistered rights*, one group of proposals (CLIP and Transparency) retains a strict territorial approach (with certain limited exceptions in case of co-ownership and employment situations), whereas the other group (ALI, Kopila and Joint JK) opts for a single-law (universal) approach (also with special rules for co-ownership and employment relationships). The applicable law rules for *registered rights* demonstrate more unity between the groups. However, they differ in regard to the employment relationship, in particular, in the absence of choice of law by parties. Also, only the CLIP proposal addresses the co-ownership situation (e.g. in collaborative research cases). The main rationales underlying the proposed rules are the need for legal certainty on the one hand, and the need to respect national state policies regarding initial ownership issues on the other. The variety of suggested rules also reflects diverging national practices (e.g. *lex loci protectionis* in Germany, Austria, and *lex originis* in France, USA). The discussion suggests that none of the suggested rules leads to the optimal results and, thus, an additional attempt to find a compromise might be necessary.

171 Regarding the transferability issue, all proposals have opted for the territorial approach. Although the wording of the suggested rules slightly differ, they are likely to result in the application of the same law of the protecting country. Only Joint JK proposal suggests a 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 on this issue and recognizes *lex loci protectionis* as the applicable rule. Although the legal certainty and simplicity reasons may call for a single law approach here, as well, the states’ interests on preserving diverging policies on transferability of rights seem to prevail.

172 As far as the applicable law to IP contracts are concerned, all proposals acknowledge party autonomy as a main rule. The rules, however, differ in setting presumptions in case the parties’ choice of law is absent. Here, different proposals show preferences for assignor’s residence, assignee’s residence, *lex loci protectionis* or a combination. CLIP, in addition, sets forth a law applicable to employment contracts (as distinguished from initial ownership in employment relationships). Different points of attachment in cases where parties’ choice is absent reflect the difficulty of finding the most appropriate law in such cases, which can also be seen in national state practice. The discussion demonstrates that each of the factors may be most relevant to different situations,

thus, a flexible approach in determining the applicable law, such as CLIP group's proposal, is worth considering.

173 All proposals allow party autonomy in IP infringement cases but all to a different extent. Most proposals limit it to infringement-related issues; CLIP allows it only with respect to remedies, whereas the Joint JK proposal seems to allow it to all issues. Until now, party autonomy has been excluded or barely exercised in most states' practice. It has been suggested, however, that its importance may grow, especially in trans-border cases online, and an even further extension of its scope might need to be discussed.

174 The de minimis rule is found only in the CLIP and Joint JK proposals. At least in CLIP proposal, it seems to apply only to a very limited number of cases (i.e. when there is neither substantial conduct nor effects in the country and if the exception provided by CLIP is not applied). Thus, its expected effects in practice are questionable.

175 Most proposals suggest very similar rules for ubiquitous infringement. It is 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 multi-state; online or offline), issues covered (initial ownership is excluded in most proposals but 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. The current national practice shows that courts, as a general matter, avoid discussing applicable law issues in online cases and simply apply forum law on a territorial basis. Both of the suggested rules thus implicate the departure from a strict territorial approach, demonstrating a great innovative nature. It is further suggested that the ubiquitous infringement rule might need to be amended in order to provide for more legal certainty and foreseeability, especially for legitimate online service providers.

176 Only the CLIP proposal suggests a special applicable law rule in cases of secondary liability. It subjects certain secondary conduct (specifically defined in the rule) 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 standards. Other proposals do not specifically address the issue because of its highly complicated nature. In national practice the courts

seem to avoid discussing applicable law issues, especially in Internet service providers' cases, and simply apply forum law. Although the CLIP group's attempt to formulate the applicable law rule to secondary liability cases should be highly welcomed, several elements of the rule might need further discussion in order to ensure both sufficient legal certainty and compatibility with the ubiquitous infringement rule.

- 1 American Law Institute, Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes (American Law Institute Publishers, St Paul, MN 2008).
- 2 CLIP Principles for Conflicts of Laws in Intellectual Property, the "Draft" and previous drafts are available on www.cl-ip.eu.
- 3 Transparency Proposal on Jurisdiction, Choice of Law, Recognition and Enforcement of Foreign Judgments in Intellectual Property, published in Jürgen Basedow, Toshiyuki Kono, Metzger, Axel (eds.), Intellectual Property in the Global Arena 394-402 (Mohr Siebeck 2010), also available at <http://www.tomeika.jur.kyushu-u.ac.jp/ip/pdf/Transparency%20RULES%20%202009%20Nov1.pdf>.
- 4 Principles on International Intellectual Property Litigation, approved by KOPILA on 26 March 2010.
- 5 Principles of Private International Law on Intellectual Property Rights of October 14, 2010, published (with comments) in The GCOE Quarterly Review of Corporation Law and Society 112 (2011).
- 6 "Law of Protected State" in art. 19 Kopila is assumed to have the same meaning.
- 7 Kojima, Ryo, Shimanami, Ryo, Nagata, Mari Applicable Law to Exploitation of Intellectual Property Rights in the Transparency Proposal, in Jürgen Basedow, Toshiyuki Kono, Axel Metzger (eds.), Intellectual Property in the Global Arena 179-229, 209 (Mohr Siebeck 2010).
- 8 The proposal presumes that *lex loci protectionis* is identical to the state of registration but this presumption might be rebutted, see explanatory note to art. 301 Joint JK Proposal, supra note 5.
- 9 See the title to sec. 301 ALI.
- 10 See comment c to sec. 301 ALI ("The usual point of attachment for determining infringement of these rights therefore will be the countries where the right owner's market for the work has been affected") or comment d to sec. 301 ALI ("The formulation 'each country for which protection is sought' is compatible with a market-oriented approach; it corresponds to the markets that plaintiff seeks to protect from infringements that are occurring (or threatened to occur) there").
- 11 Supreme Court decision of 1 July 1997, Minshū Vol. 51, No.6, p. 2299; abbreviated English translation is available at <http://www.courts.go.jp/english/judgments/text/1997.07.01-1995-O-No.1988.html> (last visited on 2 May 2011).
- 12 Supreme Court decision of 26 September, 2002, Minshū Vol. 56, No.7, p. 1551, abbreviated English translation is available at <http://www.courts.go.jp/english/judgments/text/2002.9.26-2000.-Ju-.No..580.html> (last visited on 2 May 2011).
- 13 Id.
- 14 Kojima/Shimanami/Nagata, supra note 7, p. 188, fn. 24 and p. 207 ("Criticism has been directed at this decision from academic authors to the effect that whilst it might outwardly be concerned with a method of choosing the applicable law for a private law relationship (in the form of choosing the law of the place with the closest connection to the facts), in terms of its actual content the decision adopted a choice of law method for a public law relationship that took on the form of the range of applicability of U.S. patent law.")

- 15 The other reason for rejecting the “country for which protection is sought” rule is that the latter is in a “fine line with a ‘subjective connection’ (namely the formula of ‘law of the country which the plaintiff claims’), Kojima/Shimanami/Nagata, *supra* note 7, p. 186.
- 16 ALI seems to follow a similar approach: since “other rights” do not stem from the registration and thus the registration criterion cannot be applied, they are subject to the law of each country for which protection is sought, see comment d to sec. 310 ALI.
- 17 E.g. Kojima/Shimanami/Nagata, *supra* note 7, p. 209.
- 18 See Joint JK Proposal art. 301 (2) (“...*lex protectionis* is the law of the state for which protection is sought. In the case of a registered intellectual property right, this state is assumed to be the state in which that right is or will be registered, or which is deemed to be a state of registration under the convention to which that state belongs or the local law of that state”) and comments to it, *supra* note 5.
- 19 Kojima/Shimanami/Nagata, *supra* note 7, p. 209.
- 20 It is to be seen to which extent this rule remains after the Rome II Regulation (and *lex loci protectionis* implemented therein) is applied in practice, see Regulation (EC) 864/2007 of the European Parliament and of the Council of 11 July 2007 on the law applicable to non-contractual obligations (Rome II), OJ L 199, 31.7.2007, pp. 40-49 (Rome II).
- 21 E.g. such approach has been until recently valid in regard to copyright infringements in UK, for more see Fawcett, James J. & Torremans, Paul, *Intellectual Property and Private International Law* 280-295 (Clarendon Press 1998); it is still broadly accepted in respect of registered rights’ infringements, see e.g. *Barcelona.com v. Excelentísimo*, 330 F.3d 617, 618-19 (4th Cir. 2003) (holding that United States courts will not entertain actions to enforce trademark rights under foreign law).
- 22 E.g. this is arguably required under the jurisdiction rules of Council Regulation (EC) No 44/2001 of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, OJ L 12, 16.1.2001, pp. 1-23 (Brussels I).
- 23 Berne Convention for the Protection of Literary and Artistic Works, adopted on 9 September 1886, last amended on 28 September 1979.
- 24 This has been confirmed in some jurisdictions’ court practice (e.g. Judgment of the Tokyo District Court on 9 December 2004, Hanrei Jihō No.1936, p. 40 (*Chinese Poem* case) – as cited in Kojima/Shimanami/Nagata, *supra* note 7, p. 192, fn. 28), but denied in others (e.g. USA’s *Itar-Tass Russian Agency v. Russian Kurier, Inc.*, 153 F.3d 82, 90-91 (2nd Cir. 1998); European Court of Justice (ECJ) case C-28/04 of 30 June 2005, *Tod’s SPA and Tod’s France SARL v. Heyraud SA*, ECR I-05781, para. 32 (2005) (“[A]s is apparent from article 5.1 of the Berne Convention, the purpose of that convention is not to determine the applicable law”)).
- 25 Signed on 20 March 1883, last amended on 28 September 1979.
- 26 Agreement on Trade Related Aspects of Intellectual Property Rights, adopted at 15 April 1994, Marrakech.
- 27 See e.g. Sender, Marta Pertegás, *Cross-Border Enforcement of Patent rights* 5.46 et seq. (Oxford University Press 2002).
- 28 Art. 110(1) of Swiss Private International Law subjects all IP rights to the law for which protection is sought, see also Sender, *supra* note 27, at 5.92 et seq.
- 29 One of the first cases to establish it is German Supreme Court decision of 19 May 1972 - I ZR 42/71 *Goldrausch*, GRUR Int. 49 (1973).
- 30 Eg. Art. 34(1) of Austrian IPR statute reads “in which protection is sought,” which could imply *lex fori* (cf. 5(2) Berne Convention). However, the courts have construed it as *lex loci protectionis*, see Austrian Supreme Court decision of 28 September 1993 – *Adolf Loos Werke II*, GRUR Int 638 (1994).
- 31 See art. 48 of Chinese Law on the Laws Applicable to Foreign-Related Civil Relations of 28 October 2010 (“law of the place where protection is sought”).
- 32 See sec. 42 of Taiwanese Law on Laws Applicable to Foreign-Related Civil Relations, adopted on 26 May 2010 (unofficial translation reads: “Intellectual property rights are governed by the law of the place where protection is sought”).
- 33 See *supra* text.
- 34 Drexel, Josef, *Münchener Kommentar zum Bürgerlichen Gesetzbuch*. Band 11: *Internationales Wirtschaftsrecht* Art. 50-245 EGBGB, para. 13 (Verlag C.H. Beck 2005).
- 35 Art. 48 of the Portuguese Private International Law.
- 36 Secs. 11 and 12 of UK Private International Law (Miscellaneous Provisions) Act; for more on their application to IP cases see Fawcett/Torremans, *supra* note 21, p. 60 et seq.
- 37 Sender, *supra* note 27, 5.123 et seq. (general tort applicable law rule *lex loci delicti* applies).
- 38 *Itar-Tass Russian Agency v. Russian Kurier, Inc.*, 153 F.3d 82, 90-91 (2d Cir. 1998) (refers to *lex loci delicti* and states interests’ doctrine).
- 39 E.g. Goldstein, Paul, *International Copyright. Principles, Law and Practice* 99-100 (Oxford University Press 2001) (*lex loci protectionis* is defined as referring to “the country in which the work is being exploited without the copyright owner’s authority”).
- 40 Austrian Supreme Court decision of 14 January 1986, 4 Ob 408/85, GRUR Int. 735 (1986); also Schwind, Fritz, *Internationales Privatrecht* 191 (1990).
- 41 Art. 93 para. 1 of Belgium Private International Law Code; also Sender, *supra* note 27, p. 478.
- 42 Federal Supreme Court decision of 17 June 1992, GRUR 697 (1992) – ALF.
- 43 Art. 54 of the Private International Law Act; Boschiero, Nerina *Infringement of Intellectual Property Rights, A Commentary on Article 8 of the Rome II Regulation*, IX Yearbook of Private International Law 87, 100 (2007).
- 44 Art. 110 para. 1 of the Federal Private International Law Act; Jegher, Gion, Art. 110 (Immaterialgüterrechte), in: Honsell et al. (eds.), *Baseler Kommentar, Internationales Privatrecht*, 2nd ed. (2007), Art. 110, at 13.
- 45 Art. 24 of the Korean Private International Act; Seoul Central District Court, Judgment of 30 August 2006, Case No. 2006Gahap53066 (concerning trademarks).
- 46 Arts. 48 and 50 of Law of the People’s Republic of China on the Laws Applicable to Foreign-related Civil Relations of 28 October 2010.
- 47 *Itar-Tass Russian Agency v. Russian Kurier, Inc.*, 153 F.3d 82, 90-91 (2nd Cir. 1998).
- 48 *Def Lepp Music v. Stuart-Brown*, [1986] RPC 273; *Pearce v. Ove Arup Partnership Ltd*, [2000] Ch. 403; Fawcett/Torremans, *supra* note 21, p. 60 et seq.
- 49 Court of Cassation, 22.12.1959, D. 1960, jur. 93 – *Rideau de fer*.
- 50 Vicente, Dário Moura, *A tutela internacional da propriedade intelectual* 322-23 (2008).
- 51 Metzger, Axel, *Applicable Law under the CLIP Principles: A Pragmatic Revaluation of Territoriality*, in Jürgen Basedow, Toshiyuki Kono, Axel Metzger (eds.), *Intellectual Property in the Global Arena* 157-178, 171-172 (Mohr Siebeck 2010); this is also the practical consequence of the cases discussed by Fawcett/Torremans, *supra* note 21, pp. 601-06.
- 52 See Supreme Court decision of 26 September, 2002, Minshū Vol. 56, No.7, p. 1551, abbreviated English translation is available at <http://www.courts.go.jp/english/judgments/texts/>

- t/2002.9.26-2000.-Ju.-No.,580.html (last visited on 2 May 2011) (patent case); this rule has been confirmed by lower courts for copyright infringements, see Kojima/Shimanami/Nagata, *supra* note 7, p. 184 (with supporting judgments in fn. 11).
- 53 The application of U.S. law, however, was eventually denied under public policy exception, see Supreme Court decision of 26 September 2002, *Minshū Vol. 56*, No. 7, p. 1551.
- 54 For a discussion on that see Leistner, Matthias, *The Law Applicable to Non-Contractual Obligations Arising from an Infringement of National or Community IP Rights*, in Leible, Stefan & Ohly, Ansgar (eds.), *Intellectual Property and International Private Law* (Mohr Siebeck 2009); Basedow, Jürgen & Metzger, Axel, *Lex loci protectionis europea*, in: Trunk, A. et al. (eds.) *Russia in the International Context: Private International Law, Cultural Heritage, Intellectual Property, Harmonization of laws*. *Festschrift für Mark Moiseevic Boguslavskij* 153, 162 (Berliner Wissenschafts-Verlag 2004).
- 55 See e.g. Sandrock, Otto, *Das Kollisionsrecht des unlauteren Wettbewerbs zwischen dem internationalen Immaterialgüterrecht und dem internationalen Kartellrecht*, 8-9 GRUR Int. 507 (1985).
- 56 However, courts were rather reluctant to apply it in practice, see Dreier, Thomas & Schulze, Gernot, *Urheberrechtsgesetz Vor. §§120 ff.* para. 38 (2. Auflage, Verlag C.H. Beck München 2006).
- 57 See e.g. Denaro, James, *Choice of Law Problems Posed by the Internet and by Satellite Broadcasting*, 1(3) *Tulane Journal of Technology and Intellectual Property* 1, para. 49 (2000).
- 58 See art. 2 of Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet (with Explanatory Notes), adopted by the Assembly of the Paris Union for the Protection of Industrial Property and WIPO on 24 September to 3 October 2001.
- 59 See e.g. Kur, Annette, *Use of Trademarks on the Internet – The WIPO Recommendations*, 1 IIC 41 (2002).
- 60 Comment c to sec. 310 ALI; see also comment d to sec. 310 ALI (“The formulation ‘each country for which protection is sought’ is compatible with a market-oriented approach”).
- 61 Cf. Kojima/Shimanami/Nagata, *supra* note 7, p. 186.
- 62 See *infra* “Secondary Infringement.”
- 63 E.g. Bradley, Curtis A., *Territorial Intellectual Property Rights in an Age of Globalism*, 37 *Virginia Journal of International Law* 505, fn. 110 (1997) (for copyright cases).
- 64 E.g. *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952) (U.S. Lanham Act was applied in respect of use by a U.S. citizen of a sign in Mexico which was protected under U.S. law but unprotected under Mexican law).
- 65 Under the “root copy” approach, if an initial illegal act is carried out in the U.S., the right holders can extract damages from the following illegal conduct (reproduction) occurring abroad, see e.g. *L.A. News Serv. v. Reuters Television Int'l Ltd.*, 149 F.3d 987, 991-92 (9th Cir. 1998) (unauthorized transmission and copy of work made in the United States and then further transmitted to Europe and Africa); *Update Art, Inc. v. Modia Publ'g, Ltd.*, 843 F.2d 67, 72-73 (2d Cir. 1988) (unauthorized copy of plaintiff's poster made in the United States and then further copied and distributed in Israel); *Sheldon v. Metro-Goldwyn Pictures Corp.*, 106 F.2d 45, 52 (2d Cir. 1939) (awarding plaintiff profits from both U.S. and Canadian exhibition of infringing motion picture where a copy of the motion picture had been made in the United States and then shipped to Canada for exhibition), aff'd, 309 U.S. 390 (1940).
- 66 E.g. against root copy approach see Austin, Graeme W., *Domestic Laws and Foreign Rights: Choice of Law in Transnational Copyright Infringement Litigation*, 23 *Columbia-VLA Journal of Law and the Arts* 1, 7-13 (1999); Drexel, *supra* note 34, p. 436 et seq.
- 67 E.g. Anti-counterfeiting trade agreement (ACTA), as the latest attempt to raise IP enforcement standards, have been criti-
cized both by American and European academics, see Urgent ACTA Communiqué, available at <http://www.wcl.american.edu/pijip/go/acta-communique>; The Opinion of European Academics on ACTA, available at http://www.iri.uni-hannover.de/tl_files/pdf/ACTA_opinion_200111_2.pdf.
- 68 See *infra* “Secondary Infringement.”
- 69 This would be an opposite result from what has been set in e.g. ECJ decision C-192/04 of 14 July 2005 *Lagardère Active Broadcast v SPRE and GVL*, ECR I-07199 (2005) (both the law of the emitting country and the law of receiving country is applicable) and *National Football League v. PrimeTime 24 Joint Venture*, 211 F.3d 10 (2nd Cir. 2000) (U.S. law was applied to the signal emitted from the U.S. but received in Canada).
- 70 “Registered state,” as found in art. 24 Kopila, is assumed to have the same meaning.
- 71 Transparency proposal suggests a “country that granted a right,” which is supposed to cover both the *lex loci protectionis* and the state of registration rules, see *supra* “Main rule.”
- 72 See *supra* “Main rule.”
- 73 In addition, the latter generally and unconditionally excludes any choice of law agreements in regard to initial ownership (art. 305 2nd sentence); this seems to be applied also to the cases with preexisting (employment) relationship.
- 74 They are also discussed later in chapter “contracts,” however, they need to be addressed here since some proposals (e.g. ALI and Kopila) contain specific rules for transfer of initial ownership in employment relationships.
- 75 In CLIP Proposal, however, the chosen law cannot deprive employees from rights which otherwise designated law grants to them, see art. 3:503(1) CLIP.
- 76 Art. 3:401-3:402 CLIP, see *infra*.
- 77 However, it could be only the law of one of the creators’ residences.
- 78 Although it is not identical to parties choice as suggested in the ALI and others, supposedly, the parties will often choose the law governing such relationships between them.
- 79 At the same time, art. 25(2) Kopila refers to the employer’s residence and seems to exclude the application of applicable law rules to contracts.
- 80 Kojima/Shimanami/Nagata, *supra* note 7, p. 209 (“the rules on employee inventions in any country ought to apply to each intellectual property right that that country grants” (i.e. art. 305)).
- 81 Such as licensing, waiver, consent and any other form of exploitation, the division of revenues, the authority to enforce the intellectual property rights and to bring suits.
- 82 Comment b to sec. 311 ALI.
- 83 See e.g. Art. 60 European Patent Convention; sec. 6 German Patent Act; sec. 7(2) lit. c) UK Patents Act; art. L. 611-6 French Intellectual Property Code; sec. 261 para. 2 U.S. Patent Act.
- 84 Metzger, *supra* note 51, p. 162.
- 85 See e.g. comment b to sec. 311 ALI.
- 86 Art. 3:503(1) CLIP.
- 87 Supreme Court decision, 17 October 2006, *Minshū Vol. 60*, No. 8, p. 2853, abbreviated English translation available at <http://www.tomeika.jur.kyushu-u.ac.jp/ip/pdf119-148/17%20October%202006.pdf>.
- 88 Kojima/Shimanami/Nagata, *supra* note 7, p. 208.
- 89 See comment a to sec. 313 ALI; also explanatory note to art. 308 Joint JK, *supra* note 5.
- 90 See explanatory note to art. 308 Joint JK, *supra* note 5 (“no matter what law protects the copyright of its original owner, its initial title absolutely connects with the state of origin so that the subject matter circulates more easily”).

- 91** This has been an established court practice in France, see “international context.”
- 92** Comment a to sec. 313 ALI.
- 93** Metzger, *supra* note 51, pp. 160-162.
- 94** French Supreme Court decision of 28 May 1991 – *John Huston*, II JCP Nr. 220 (1991) – note by Ginsburg/Sirinelli; rev. crit. DIP 752 (1991).
- 95** See Ansgar Ohly, *Choice of Law in the Digital Environment – Problems and Possible Solutions*, in Drexl/Kur (eds.), *Intellectual Property and Private International Law* pp. 241, 249-50 (2005).
- 96** Metzger, *supra* note 51, pp. 160-162 (“Territoriality is not just a traditional (and some may say obsolete) concept in intellectual property law but a legal means to execute the cultural policy choices of states. Initial ownership in copyright is an essential part of this policy choice”).
- 97** “Since parties are free however to transfer rights from different countries separately after the rights in question had been created, there is not thought to be much point in applying a standardized rule for just the principal of primary ownership,” see Kojima/Shimanami/Nagata, *supra* note 7, pp. 209-201.
- 98** Comment b to sec. 313 ALI.
- 99** “As intellectual property covers creative works of the mind, as well as related subject matter, it seems appropriate to link the country of origin to the creator’s residence at the time of the work’s creation,” comment b to sec. 313 ALI.
- 100** For example, if the author is simply visiting or passing through a country when inspiration strikes, see comment b to sec. 313 ALI.
- 101** Reporters’ note 4 to sec. 313 ALI.
- 102** Comment b to sec. 313 ALI.
- 103** Metzger, *supra* note 51, p. 165.
- 104** ALI makes it more concrete by referring to the “state with the closest connection with the first exploitation.”
- 105** Comment d to sec. 313 ALI.
- 106** Interestingly, ALI in addition tries to protect the creator’s interests in case of the mass market agreements (sec. 313(1)(d) ALI). They are subject to *lex contractus* rule but the validity of choice is subject to the conditions of reasonability and accessibility (sec. 302(5)). These provisions would be useful to protect the initial ownership interests of creators in e.g. online cases when they contribute to a collaborative work and transfer their ownership under non-negotiable click-wrap agreements.
- 107** OJ L 122, 17 May 1991, pp. 42-46 (“all economic rights”); Metzger also points out that it can hardly be compared to the “effect may be given” - proviso of art. 9(3) Rome I Regulation which gives discretion to courts regarding foreign overriding mandatory provision, see Metzger, *supra* note 51, p. 162 fn. 19.
- 108** Metzger, *supra* note 51, p. 162 fn. 19.
- 109** See *supra* text on Hitachi decision.
- 110** Comment f to sec. 313 ALI.
- 111** See Westkamp, Guido, *Research Agreements and Joint Ownership of Intellectual Property Rights in Private International Law*, 6 IIC 637-661, 639 et seq. (2006).
- 112** Art. 93(2) Belgian Code of Private International Law (“Nevertheless, the determination of the original owner of the industrial property right is governed by the law of the state with which the intellectual activity has the closest connections. If the activity takes place within a framework of contractual relations, that State is presumed to be the state of which the law applies to these contractual relations, until proof to the contrary is brought”).
- 113** Sec. 42(2) of Taiwanese Law on Laws Applicable to Foreign-related Civil Relations, adopted on 26 May 2010.
- 114** 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 been adopted on 28 October 2010.
- 115** Art. 34(2) Austrian Private International Law Statute (IPRG) (“For intangible property rights arising for the activity of an employee within the framework of his employment relationship, the conflicts rule governing the employment relationship shall be determinative for the relationship between the employer and the employee” – translation by R.M.). 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.
- 116** Art. 60 European Patent Convention. It provides a stricter approach than the one adopted in art. 8(1) Rome I Regulation: the latter allows parties to choose the applicable law to individual employment contracts, though the effect of otherwise applicable overriding employee-protective provisions shall remain.
- 117** E.g. its applicable law nature was rejected in the U.S. case *Itar-Tass Russian Agency v. Russian Kurier, Inc.*, 153 F.3d 82, 91 (2^d Cir. 1998) (USA).
- 118** See e.g. Pertegás, Marta, *Intellectual Property and Choice of Law Rules*, in Malesta, Alberto (ed.), *The Unification of Choice of Law Rules on Torts and other Non-contractual Obligations in Europe*. The “Rome-II” Proposal 221-248, 239 (Casa Editrice Dott. Antonio Milani 2006); Boschiero, *supra* note 43, pp. 102-103; Birkmann, Andrea, *Die Ankündigung der originären Inhaberschaft am Urheberrecht. Ein Vergleich der Rechtslage in Deutschland, Frankreich und den USA unter Berücksichtigung internationaler Konventionen* 104 (Nomos Verlagsgesellschaft 2009); contra e.g. Leistner, Matthias, *The Law Applicable to Non-Contractual Obligations Arising from an Infringement of National or Community IP Rights*, in Leible, Stefan & Ohly, Ansgar (eds.), *Intellectual Property and International Private Law* (Mohr Siebeck 2009).
- 119** Supreme Court decision of 02 October 1997 - I ZR 88/95 *Spielbankaffaire*, MMR 35 (1998), for a thorough analysis of German practice see Birkmann, *supra* note 118, pp. 121-142.
- 120** See art. 34 Austrian International Private Law 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, 17.06.1980, JBl. 1986, 655 = GRUR Int. 1986, 728 – Hotel-Video.
- 121** Art. 10(4) of the Spanish Civil Code.
- 122** Art. 93(1) of the Belgian Code of Private International Law.
- 123** See Supreme Court decision, 17 October 2006, Minshū Vol. 60, No. 8, p. 2853 (“Hitachi”).
- 124** Art. 48 Law of the People’s Republic of China on the Laws Applicable to Foreign-related Civil Relations of 28 October 2010.
- 125** Art. 24 of South Korean Private International Law Act.
- 126** 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, Nr. 21780 (1992).
- 127** See *Itar-Tass Russian Agency v. Russian Kurier, Inc.*, 153 F.3d 82, 91 (2d Cir. 1998) (although it sets a “most significant relationship” rule it, would arguably lead to the same results as *lex originis*); interestingly, sec. 104A U.S. Copyright Act subjects the ownership of so-called “restored works” to the law of the country of origin; see also Goldstein, *supra* note 39, p. 103.
- 128** For a discussion see Birkmann, *supra* note 118, pp. 129-130.
- 129** Supreme Court decision, 17 October 2006, Minshū Vol. 60, No. 8, p. 2853 (in respect of remuneration claims).

¹³⁰ § 42(2) of Taiwanese Law on Laws Applicable to Foreign-related Civil Relations, adopted on 26 May 2010.

¹³¹ See Birkmann, *supra* note 118, p. 166.

¹³² See art. 34(2) Austrian Private International Law Statute (IPRG) ("For intangible property rights arising for the activity of an employee within the framework of his employment relationship, the conflicts rule governing the employment relationship shall be determinative for the relationship between the employer and the employee" – translation by R.M.). It seems to subject, at least with *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.

¹³³ See Court of Appeal of Paris decision of 13 January 1953, R.C.D.I.P. 739 (1953); Court of Appeal of Paris decision of 6 July 1989 – *John Huston*, 116 JDI 979 (1989) = GRUR Int. 936 (1989) (German translation).

¹³⁴ See Court of Appeal of Paris decision of 1 February 1989 – *Anne Bragance v. Olivier Orban and Michel de Grece*, 142 RIDA 301 (1989); Supreme Court decision of 28 May 1991 – *John Huston*, II JCP Nr. 220 (1991); also the rules on remuneration for a private copy were recognized as mandatory rules (*regles de police*), see District Court of Paris decision of 3 May 2000, 3 RIDA 451 (2000).

¹³⁵ Westkamp, *supra* note 111, pp. 637-639.

¹³⁶ Westkamp, *supra* note 111, pp. 651-652.

¹³⁷ E.g., in UK the person not contributing to the inventive step cannot be a joint inventor, see *Henry Bros. (Magherafel) v. Ministry of Defense* [1999] RPC 442.

¹³⁸ Westkamp, *supra* note 111, p. 661.

¹³⁹ Supreme Court decision, 17 October 2006, Minshū Vol. 60, No. 8, p. 2853 ("Hitachi"), for a description see *supra* text.

¹⁴⁰ See e.g. Birkmann, *supra* note 118.

¹⁴¹ This part is largely based on the study Rita Matulionyte, Law Applicable to Copyright Infringements: An Analytical Comparison of the ALI and CLIP Proposals (Edward Elgar 2011).

¹⁴² The following text will focus on the creator's residence rule since it is suggested in all proposals either as a main rule (ALI) or as an additional rule (Joint JK, Kopila proposals).

¹⁴³ This has also been noted by the ALI, see Reporters' note 3 to sec. 313 ALI.

¹⁴⁴ See Birkmann, *supra* note 118, pp. 93-94.

¹⁴⁵ E.g., work can be created while moving through different places, see Birkmann, *supra* note 118, p. 247.

¹⁴⁶ In some jurisdictions (e.g. UK) "author" can be both physical and legal person.

¹⁴⁷ About the flexible nature of "residence" in German legal practice see e.g. Kropholler, Jan, Internationales Privatrecht 281 (6. Auflage, Mohr Siebeck 2006).

¹⁴⁸ See e.g. Regelin, Frank P., Das Kollisionsrecht der Immateri-algüterrechte an der Schwelle zum 21. Jahrhundert 154 (Peter Lang 2000).

¹⁴⁹ See comment b to sec. 313 ALI (when defining the creator's residence one has to take into account "circumstances of a personal or professional nature that show durable connections with that place or indicate the will to create such connections").

¹⁵⁰ See sec. 313 (2) ALI, also sec. 313(1)(b)(iii) ALI.

¹⁵¹ E.g.i, Kessedjian, Catherine, *Current International Developments in Choice of Law: An Analysis of the ALI Draft*, in Basedow, Jürgen et al. (eds.), Intellectual Property in the Conflicts of Laws 19-38, 35 (Mohr Siebeck 2005), 32; Regelin, *supra* note 148, p. 158; Birkmann, *supra* note 118, p. 246.

¹⁵² For instance, in France a "work of collaboration" is defined as a work in creation of which more than one natural person has participated; the rights to such a work should be exercised by a common accord, see art. L.113-2 and 113-3 of French Intellectual Property Code; in Germany, the definition of a joint work is narrower – it stipulates that "contributions cannot be separately exploited;" the exercise of rights by each contributor is restricted – a co-author may not unreasonably refuse the consent, see art. 8(1) and (2) of German Copyright and Related Rights Act.

¹⁵³ To give a single example, a choreographic performance was created by a group of artists including a choreographer. They agreed to apply the law of country A, which grants ownership for all creators and requires the consent of all creators when exploiting the work. Country B grants rights only to the choreographer. A theater in country B thus asks the permission to use the choreographic work only from a choreographer and not from other creators. Other creators wanted to claim their rights. Although the chosen law of country A allows them to enforce their rights individually, the choice appears to be of no use since law of country B does not grant any rights to them.

¹⁵⁴ E.g. art. 3 and art. 4(4) Rome I Regulation.

¹⁵⁵ See Eechoud, Mireille van, *Choice of Law in Copyright and Related Rights. Alternatives to the Lex Protectionis* 186 (Kluwer Law 2003).

¹⁵⁶ The co-authors of a cinematographic works could be, e.g., only the producer or the producer and a principle director (e.g. in Ireland, United Kingdom) or the principal director, the authors of underlying works of literature and composers of music or the principal director and, if their contributions meet the requirements of originality in each individual case, also the director of photography, the editor, the sound designer and others, see Report from the Commission to the Council, the European Parliament and the economic and social Committee on the question of authorship of cinematographic or audiovisual works in the Community of December 9, 2002, available at <<http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52002DC0691:EN:NOT>> [accessed on 20 November 2009].

¹⁵⁷ See, e.g., Thum, Dorothee, *Who Decides on the Colours of Films on the Internet? Drafting of Choice-of-Law Rules for the Determination of Initial Ownership of Film Works vis-à-vis Global Acts of Exploitation on the Internet*, in Drexel, Josef & Kur, Annette (eds.), Intellectual Property and Private International Law. Heading for the Future 265-287, 265-266 (Hart Publishing 2005).

¹⁵⁸ See Metzger, *supra* note 51, pp. 161-162.

¹⁵⁹ For instance, a work was created under an employment contract in A, which contains no special provisions on transfer of copyright. The employer acquired copyrights as a result of the work-for-hire doctrine applicable in country A. However, country B requires an explicit written transfer of rights. Thus, when the employer tries to enforce infringed rights in country B, he/she cannot prove the ownership of copyright.

¹⁶⁰ See Court of Appeal of Paris decision of 6 July 1989 – *John Huston*, 116 JDI 979 (1989) = GRUR Int. 936 (1989) (France) (The more right holders blocked the use of colorized movie in France).

¹⁶¹ For arguments in favor of *lex contractus* see, e.g., Eechoud, *supra* note 155, p. 188 et seq.; Geller, Paul Edward, *Conflicts of Laws in Copyright Cases: Infringement and Ownership issues*, 51 Journal of Copyright Society of the U.S.A. 315, 361 et seq. (2003/2004); Fawcett/Torremans, *supra* note 21, p. 514 et seq.; Regelin, *supra* note 148, p. 186; Ulmer, Eugen, *Die Immateri-algüterrechte im internationalen Privatrecht* para. 56 et seq. (Carl Heymanns Verlag KG 1975).

¹⁶² See Geller, *supra* note 161, p. 364.

¹⁶³ See Eechoud, *supra* note 155, p. 191.

¹⁶⁴ See Birkmann, *supra* note 118, p. 258 et seq.

- 165** See Rome I Regulation, art. 8(1).
- 166** See comment b to sec. 311 ALI.
- 167** See Birkmann, *supra* note 118, p. 261.
- 168** See comment a to sec. 323 ALI.
- 169** The court may be motivated to take into account foreign mandatory provisions if the danger exists that it will be impossible to enforce the decision in that country in case these author-protective provisions are not taken into account.
- 170** See Birkmann, *supra* note 118, p. 261.
- 171** See “law of each state for which rights are transferred” (sec. 314 ALI); “country that granted the intellectual property right” (art. 305 Transparency); “law of protected country” (art. 19 Kopila); “for which protection is claimed” (3:301 CLIP, 309(1) Joint JK).
- 172** ALI proposal refers to the extent of transferability and recordation requirements, CLIP proposal – to transferability and invocation against third parties, Transparency proposal – only to transferability, Kopila proposal – to assignability and the effects of assignation, and Joint JK proposal – to transferability and the effects of transfer.
- 173** Metzger, *supra* note 51, p. 163; Reporters’ note 3 to sec. 314 ALI.
- 174** Reporters’ note 1 to sec. 314 ALI.
- 175** Explanatory comments to art. 309 Joint JK, *supra* note 5.
- 176** Court de cassation, pre-mière chambre civile [Cass. 1e civ.], 28 May 1991, Bull. civ. I, No. 172 (Huston v. La Cinq) (Fr.). In that case, however, the French high court avoided any choice-of-law analysis, and applied French law as a mandatory rule.
- 177** *Campbell Connelly & Co. Ltd. v. Noble*, [1963] 1 All ER 237 (High Court).
- 178** German Supreme Federal Court, 02.10.1997, GRUR 1999, 152 – *Spielbankaffaire*.
- 179** See Rummel, Peter (ed.), *Kommentar zum allgemeinen bürgerlichen Gesetzbuch Band II, Teil 6 para. 4* (Wien: Manz, 2004); Schwimann, Michael, *Interntionales Privatrecht 75* (Wien: Manz 1993).
- 180** Belgian Code of Private International Law art. 94(1)(4).
- 181** *Corcovado Music Corp. v. Hollis Music, Inc.*, 981 F.2d 679 (2d Cir. 1993) (assignability of copyright renewal term was determined under U.S. law as the law of protecting country).
- 182** E.g. moral rights are unwaivable under Article L. 121-1 al. 3 French Intellectual Property Code; unwaivable remuneration right under art. 4 of Council Directive 92/100/EEC of 19 November 1992 on rental right and lending right and on certain rights related to copyright in the field of intellectual property, OJ L 346 , 27/11/1992 P. 0061 – 0066; unwaivable resale right under art. 1(1) of Directive 2001/84/EC of the European Parliament and of the Council of 27 September 2001 on the resale right for the benefit of the author of an original work of art, OJ L 272 , 13/10/2001 P. 0032 – 0036.
- 183** This has been followed by French courts, see Paris Court of Appeal, 06.07.1989, D. 1990, Jur. 152 – *Sté la Cinq/Angelica Huston et autres* (moral rights); a similar approach was adopted in Sec. 32b of the German Copyright Act.
- 184** Metzger, *supra* note 51, p. 164.
- 185** Also Metzger, *supra* note 51, p. 163.
- 186** Cf. Kojima/Shimanami/Nagata, *supra* note 7, p. 210.
- 187** It sets requirements for the choice (“expressed or demonstrated with a reasonable certainty”), sets a presumption on agreement on applicable law in case there is an agreement on the choice of court, allows the choice for the whole or part of the contract (all in art. 3:501(1)); allows a change of choice (art. 3:501(2)); regulates the validity of contractual choice (art. 3:501(3)).
- 188** Art. 3:503(2) CLIP; art. 306(2) Transparency.
- 189** The rule applies only to contracts that have “as their main object the creation of protectable subject matter or the transfer or license of intellectual property rights;” for other contracts containing IP transfer clauses (e.g. franchise or distribution contracts), general presumption of art. 3:502(1) is applicable, see Metzger, *supra* note 51, p. 168.
- 190** Art. 23(1) Kopila; art. 307(2) Joint JK.
- 191** Art. 307(2) Joint JK; however, here, the list raises additional questions, e.g. how many factors need to be met in order to apply the law of assignee’s residence; what law court shall (or may) apply if no connecting factor is met; can a court decide to apply the law of assignee’s residence on the basis of other factors?
- 192** E.g. ALI Principles treat the issue of employment relationship as an issue of initial title (sec. 313(1)(c) and 313(2)).
- 193** Comment b to sec. 315 ALI.
- 194** E.g. Asensio, P.A. De Miguel, *Applicable Law in the Absence of Choice to Contracts Relating to Intellectual or Industrial Property Rights*, Yearbook of Private International Law, Vol. X, 2008, pp. 199-219, cited from <http://eprints.ucm.es/8689/1/YPIL2008pdemiguel.pdf> pp. 13-17; Paul Torremans, *Licenses and Assignments of Intellectual Property Rights under the Rome I Regulation*, 4 Journal of Private International Law 397, 406-407 (2008).
- 195** From draft comments to the article as discussed by the CLIP group in Munich meeting on 19-20 November 2010.
- 196** Explanatory notes to art. 307 Joint JK, *supra* note 5.
- 197** Fawcett/Torremans, *supra* note 21, pp. 514-15, 523-34.
- 198** Metzger, *supra* note 51, p. 169.
- 199** *Corcovado Music Corp. v. Hollis Music, Inc.*, 981 F.2d 679 (2d Cir. 1993) (A U.S. court refused to recognize the validity of a Brazilian-law agreement assigning a U.S. copyright renewal term on the ground that, although the U.S. renewal copyright was assignable, the Brazilian contract did not assign the term effectively because the text of the agreement did not contain the word “renewal”).
- 200** *Cambell Connelly & Co Ltd v. Noble*, (1963) 1 WLR 252, 255 (UK).
- 201** Judgement of 1 February 1989, *Anne Bragance v. Olivier Orban and Michel de Grece* (1989) 142 RIDA 301.
- 202** Art. 4(2) of Convention 80/934/ECC on the law applicable to contractual obligations opened for signature in Rome on 19 June 1980.
- 203** See art. 4(1)(f) of Proposal for a Regulation of the European Parliament and the Council on the law applicable to contractual obligation (“Rome I”) of 15.12.2005, COM (2005) 650 final.
- 204** See e.g. *CLIP Comments on the European Commission’s Proposal for a Regulation on the Law Applicable to Contractual Obligations (“Rome I”) of 15 December 2005 and the European Parliament Committee on Legal Affairs’ Draft Report on the Proposal of 22 August 2006*, reprinted in IIC 472 (2006).
- 205** E.g., Fawcett/Torremans, *supra* note 21, p. 560 et seq; Asensio, *supra* note 194, pp. 13-17.
- 206** For more see Asensio, *supra* note 194, pp. 11-12.
- 207** Art. 122(1) Switzerland’s Code on Private International Law of December 18, 1987 as amended until January 1, 2007, see also Swiss Supreme Court, 22.04.1975, GRUR Int. 1977, 208 – “EFASIT.”
- 208** Art. 43(1) of the former Austrian Private International Law Act (IPRG).
- 209** Landgericht Düsseldorf, 10.01.1999, GRUR Int. 1999, 772 – “Virusaktiviertes Blutplasma.”
- 210** See German Supreme Court decisions of 22.11.1955, GRUR 1956, 135 – “Sorell and Son” and of 29.03.2001, GRUR 2001, 1134 – “Lepo Sumera.”
- 211** Art. 49 of Chinese Law on Laws Applicable in foreign-Related Civil Relations.

- ²¹² Art. 41 of Chinese Law on Laws Applicable in foreign-Related Civil Relations.
- ²¹³ Asensio, *supra* note 194, p. 12.
- ²¹⁴ Dessenmontet, *The Law Applicable under the ALI Principles: Choice of Law in Transborder Litigation*, in Stefania Bariatti, *Litigating Intellectual Property Rights Disputes Cross-Border: EU Regulations*, ALI Principles, CLIP Project 51 (CEDAM 2010).
- ²¹⁵ Id.
- ²¹⁶ Asensio, *supra* note 194, p. 14.
- ²¹⁷ See Nishitani, Yuko, *Contracts Concerning Intellectual Property Rights*, in Ferrari, Franco and Leible, Stefan, *Rome I Regulation. The Law Applicable to Contractual Obligations in Europe* 51–84, 68 et seq. (Berlin, New York: Sellier de Gruyter 2009).
- ²¹⁸ This has been decided in Austrian Supreme Court case of 5 May 1987 – *Stefanel*, GRUR Int 72 (1988).
- ²¹⁹ Fawcett/Torremans, *supra* note 21, pp. 561-564.
- ²²⁰ For a similar argument on characteristic performance see Soltyński, S., *Choice of Law and Choice of Forum in Transnational Transfer of Technology Transactions*, Recueil des cours (1986), t. 196, at 239, 315.
- ²²¹ E.g. Troller, GRUR Auslandteil 108, 121 (1952).
- ²²² Modiano, *Le contract de license de brevet*, Droz 138-141 (1979).
- ²²³ For more arguments see Fawcett/Torremans, *supra* note 21, pp. 564-566.
- ²²⁴ Ulmer, Eugen, *Intellectual Property Rights and the Conflict of Laws* 101-102 (Kluwer Academic Publishers 1978).
- ²²⁵ In favor see Fawcett/Torremans, *supra* note 21, pp. 566-570; Asensio, *supra* note 194, pp. 18-20.
- ²²⁶ Nishitani, *supra* note 217, p. 70.
- ²²⁷ Ulmer, *supra* note 224, pp. 92-93.
- ²²⁸ See Nishitani, *supra* note 217, p. 67.
- ²²⁹ Kojima/Shimanami/Nagata, *supra* note 7, 225-226 (proposing to apply the law of the country granting the intellectual property right).
- ²³⁰ Security interests are explicitly mentioned in Article 14(1)(b) (iii) WIPO Patent Law Treaty and Rule 17(9) of the Regulations Under the Patent Law Treaty.
- ²³¹ Drexel, *supra* note 34, para. 202.
- ²³² Bariatti, *The Law Applicable to Security Rights in Intellectual Property*, 6 *Journal of Private International Law* 395, 400 (2010).
- ²³³ Kojima/Shimanami/Nagata, *supra* note 7, 225-226.
- ²³⁴ Article 16(1), (2) Council Regulation (EC) 207/209 of 26 February 2009 on the Community Trade.
- ²³⁵ Available at http://www.uncitral.org/pdf/english/texts/security-lg/e/10-57126_Ebook_Suppl_SR_IP.pdf.
- ²³⁶ Recommendation 248 of the Legislative Guide.
- ²³⁷ Organization of American States (OAS), Model Inter-American Law on Secured Transactions, available at http://www.oas.org/dil/CIDIP-VI-securedtransactions_Eng.htm.
- ²³⁸ Available at <http://www.ebrd.com/downloads/legal/se-cured/modellaw.pdf>, see comments to Art 11.
- ²³⁹ To be published by OUP in 2012; the further summary of the discussion is largely based on these comments.
- ²⁴⁰ Bariatti, *supra* note 232, at 396; *UNCITRAL Legislative Guide on Secured Transactions – Supplement on Security Rights in Intellectual Property* (2011) para. 299.
- ²⁴¹ 302(2) ALI excludes from parties' choice validity and maintenance of registered rights, the existence, attributes, transferability, and duration of rights, as well as formal requirements for recordation of assignments and licenses (interestingly, initial ownership is not mentioned); Transparency proposal allows choice in respect of the "formation and effects of the claims" but excludes choice of law by parties for existence,

primary ownership, transferability and effects of transfer (arts. 304(1) and 305); Kopila excludes issues of existence or validity, the contents, extinguishment, infringement, assignability, and the effect of assignment on a third party, and registration of registered IPRs (art. 20 Kopila).

- ²⁴² Comment a to sec. 302 ALI.
- ²⁴³ Kojima/Shimanami/Nagata, *supra* note 7, p. 203; According to the Joint JK group, party autonomy in choice of law is "an important principle governing the conflict of intellectual property rights [which] promotes transference and exploitation of those rights between East Asian states," see Explanatory notes to art. 302 Joint JK, *supra* note 5.
- ²⁴⁴ See Reporter's Note 2 to sec. 302 ALI.
- ²⁴⁵ See *infra* "International context."
- ²⁴⁶ Kojima/Shimanami/Nagata, *supra* note 7, pp. 204-205.
- ²⁴⁷ Reporter's Note 1 to sec. 302 ALI ("The increasing amenability over the last 30 years of intellectual property issues to arbitration [citation omitted] demonstrates that some States now are willing to commit to party autonomy intellectual property disputes whose resolution the State previously confined to courts in that State").
- ²⁴⁸ Comment a to sec. 302 ALI ("contract can not create rights in the country where they do not exist"), see also Reporter's Note 1 to sec. 302 ALI ("Competition law, foreign-exchange law, protection of consumers, product liability, or transferability restrictions under domestic intellectual property law cannot be contracted away by the parties through a choice-of-law agreement."), cf. Metzger, *supra* note 51, pp. 176-177.
- ²⁴⁹ Metzger, *supra* note 51, p. 176 ("One can argue that the remedies, e.g. the availability of double damages, are a crucial element of the level of protection of intellectual property and therefore part of the national trade policy that can not be derogated from by contract"), also Basedow/Metzger, *supra* note 54, p. 160.
- ²⁵⁰ Reporter's Note 2 to sec. 302 ALI.
- ²⁵¹ Explanatory notes to art. 302 Joint JK, *supra* note 5.
- ²⁵² See Supreme Court decision of 17 June 1992 - I ZR 182/90 – *Alf*, 24 IIC 539 (1993); Supreme Court decision of 2 October 1997 - I ZR 88/95 – *Spielbankaffaire*, MMR 35 (1998).
- ²⁵³ Rummel, Peter (Ed.), *Kommentar zum allgemeinen buergerlichen Gesetzbuch Band II, Teil 6*, para. 4 (Manz 2004) (with references to relevant case law).
- ²⁵⁴ Belgian Code of Private International Law art. 104(2) (allows party autonomy in quasi-contractual relations).
- ²⁵⁵ Art. 110(2) of the Swiss Private International Law provides as follows: "In any case claims arising out of infringement of intellectual property rights, the parties may always agree, after the act causing damage has occurred, that the law of the forum shall be applicable."
- ²⁵⁶ Since injunction is regarded to be *ius prohibendi* of IP rights, party autonomy is restricted to the patrimonial claims, especially such as pecuniary damages, see Vischer F., *Das internationale Privatrecht des immaterialgüterrechtes nach dem schweizerischen IPR Gesetzenentwurf*, GRUR Int 670-682, 680 (1987); Dutoit B., *Commentaire de la loi fédérale du 18 décembre 1987*, 293 (Basel: Helbing&Lichtenhahn, 1997); Sender, *supra* note 27, at 5.98.
- ²⁵⁷ Art. 8(3) of Rome II Regulation.
- ²⁵⁸ See art. 8 as proposed in the European Parliament Legislative Resolution on the Rome II Proposal, adopted in first reading on 6 July 2005.
- ²⁵⁹ E.g. Boschièro, *supra* note 43, p. 107 et seq.; Boer, Th. M., *Party Autonomy and Its Limitations in the Rome II Regulation*, 9 *Yearbook of Private International Law* 19, 25-26 (2007).
- ²⁶⁰ Art. 21 of the Japanese Act on the General Rules for Application of Laws, English translation (unofficial) is available on

- [http://www.hawaii.edu/aplpj/articles/APLPJ_08.1_anderson.pdf.](http://www.hawaii.edu/aplpj/articles/APLPJ_08.1_anderson.pdf)
- 261 See Supreme Court decision of 26 September, 2002, Minshū Vol. 56, No.7, p. 1551 (“Card Reader”).
- 262 Kojima/Shimanami/Nagata, *supra* note 7, p. 204.
- 263 Art. 50 2nd sentence of the Chinese Law on the Laws Applicable to Foreign-related Civil Relations (“The parties may also choose to apply the law of the forum after the infringement occurs”).
- 264 Even though courts have started to recognize it in practice, see Nishitani, Yuko, *Party Autonomy and Its Restrictions by Mandatory Rules in Japanese Private International Law*, in Basedow, Jürgen, Baum, Harald and Nishitani, Yuko, *Japanese and European Private International Law in Comparative Perspective* 77-105, 81-82 (Mohr Siebeck 2008).
- 265 Nishitani, *supra* note 259, p. 82.
- 266 See also Heiss, Helmut, *Party Autonomy*, in Ferrari, Franco and Leible, Stefan, *Rome I Regulation. The Law Applicable to Contractual Obligations in Europe*, 1-16, 3 (Berlin, New York: Selliér de Gruyter 2009).
- 267 Nishitani, *supra* note 217, pp. 82-83.
- 268 Belgium, Germany, Lithuania, Switzerland, Russia, Japan – only ex post; Austria, Lichtenstein, Netherlands – ex post and ex ante, see Graziano, Thomas, Kadner, *Freedom to Choose the Applicable Law in Tort – Articles 14 and 4(3) of the Rome II Regulation*, in John Ahern and William Binchy (eds.), *The Rome II Regulation on the Law Applicable to Non-contractual Obligations*, 113-133, 114-115 (Martinus Nijhoff Pub. 2009); also Hartenstein, Olaf, *Die Privatautonomie im Internationalen Privatrecht als Störung des europäischen Entscheidungsklang* 5 (Mohr Siebeck 2000).
- 269 See Graziano, *supra* note 268, p. 113 et seq.
- 270 Id.
- 271 See a famous *Bier v. Mines de Potasse* case: although French law set very strong liability for environmental damage, Dutch law was chosen because application of foreign (French) law would have not allowed the appeal, commented in Graziano, *supra* note 268, p. 116.
- 272 See a good summary of arguments in Graziano, *supra* note 268, p. 115 et seq.
- 273 See e.g. Kreuzer, in *Münchener Kommentar* 2249 (3rd. Ed., 1998); Pertegás, Marta, *Intellectual Property and Choice of Law Rules*, in Malesta, Alberto (ed.), *The Unification of Choice of Law Rules on Torts and other Non-contractual Obligations in Europe. The “Rome-II” Proposal* 221-248, 221 (Casa Editrice Dott. Antonio Milani 2006).
- 274 See, e.g. Hamburg Group for Private International Law, *Comments on the European Commission’s Draft Proposal for a Council Regulation on the Law Applicable to Non-Contractual Obligations*, 2002 available at <http://ec.europa.eu/justice_home/news/_consulting_public/rome_i/max_planck_en.pdf> [Accessed on 25 July 2007], p. 38 (party autonomy should not be allowed “where public interests are or may be involved”); Buchner, Benedikt, *Rom II und das Internationale Immaterialgüter- und Wettbewerbsrecht*, 12 GRUR Int. 1004, 1008 (2005) Kur, Annette, *Applicable Law: an Alternative Proposal for International Regulation – The Max-Planck Project on International Jurisdiction and Choice of Law*, 30(3) Book. J. Int’l L. 952, 975 (2005); Kreuzer, Karl, *Tort Liability in General*, in Malesta, Alberto (ed.), *The Unification of Choice of Law Rules on Torts and other Non-Contractual Obligations in Europe. The “Rome-II” Proposal* 55-56 (Casa Editrice Dott. Antonio Milani 2006), Pertegás, *supra* note 273, p. 221; Eechoud, *supra* note 155, pp. 174-175.
- 275 Compare to the former argument in the field of contract law.
- 276 See Hartenstein, *supra* note 268, pp. 11-12.
- 277 See Metzger, *supra* note 51, p. 177.
- 278 It is found in most of the analyzed proposals, except for the ALI Principles.
- 279 See *supra* discussion on *lex loci protectionis*.
- 280 See *supra*.
- 281 See arts. 5-9 of Rome I Regulation (provisions on employment, consumer, insurance contracts as well mandatory rules), also Heiss, *supra* note 266, p. 3.
- 282 See Pertegás, *supra* note 273, at 221; Metzger, *supra* note 51, at 176 (argues that damage rules such as on pecuniary damages, may reflect public policies).
- 283 See *infra* “Ubiquitous infringement.”
- 284 See also Briggs, Adrian, *Agreements on Jurisdiction and Choice of Law* para. 10.75 (Oxford University Press 2008).
- 285 For instance, in case the invention is used without authorization in countries A and B whereas the patent exists only in A, parties cannot decide to apply patent law of country A for both territories since this would “create,” through parties agreement, a patent right in country B.
- 286 Cf. 2:401(2) CLIP (allows, in certain cases, international jurisdiction over validity and registration issues, however, only with intra partes effects).
- 287 E.g. Metzger, *supra* note 51, pp. 176-177.
- 288 For some critical comments concerning ex ante choice of applicable law in Rome II Regulation see Kono, Toshiyuki, *Critical and Comparative Analysis of the Rome II Regulation on Applicable Laws to Non-contractual Obligations and the New Private International Law in Japan*, in Jürgen Basedow, Harald Baum and Yuko Nishitani, *Japanese and European Private International Law in Comparative Perspective* 221-241, 240 (Mohr Siebeck 2008).
- 289 For instance, a search engine A was sued by a right holder B for contributory copyright infringement allegedly occurring worldwide. Since the laws on contributory liability are not clear in many countries and the litigation in each state would be too cost-prohibitive, the parties may decide, on their own risk, to apply a law in respect of the entire worldwide infringement. In such a case parties would undertake the risk that if the decision is not favorable to them, it would still extend to the countries whose laws would have otherwise provided a favorable solution.
- 290 See *infra* chapter “Secondary liability.”
- 291 See *infra* chapter “Ubiquitous infringement.”
- 292 See *infra* chapter “Ubiquitous infringement.”
- 293 See explanatory notes to art. 305 Joint JK, *supra* note 5.
- 294 See Metzger, *supra* note 51, p. 173.
- 295 Art. 305 Joint JK Proposal reads “Courts that apply *lex loci protectionis* find the infringement of intellectual property rights as long as the direct inducement, accessory-ship and substantive preparatory acts of such infringement are directed to the state of protection, even if whole or part of the act was done outside the state of protection, and there is the threat of direct and substantive injury within its territory.”
- 296 See a reference to the “direct inducement” and “accessory-ship” in art. 305.
- 297 See § 301(2) ALI Principles, Preliminary Draft of 2005, published in Jürgen Basedow et al. (eds.), *Intellectual Property in the Conflicts of Laws* 229-250 (Mohr Siebeck 2005) (“the law applicable to determine the existence, validity and scope of the intellectual property rights and remedies for their infringement is the law of any country where the alleged infringing act has or will significantly impact the market for the work or subject matter at issue”).
- 298 Comment to sec. 123 ALI (*lex loci protectionis*) “corresponds to the markets that plaintiff seeks to protect from infringements that are occurring (or threatened to occur) there”.
- 299 See *supra* “Main rule.”

- 300** See *supra* discussion.
- 301** Metzger, *supra* note 51, pp. 172-173.
- 302** See ECJ decision C-192/04 of 14 July 2005 *Lagardère Active Broadcast v. SPRE and GVL*, ECR I-07199 (2005) (both the law of the emitting country and the law of receiving country is applicable) and *National Football League v. PrimeTime 24 Joint Venture*, 211 F.3d 10 (2d Cir. 2000) (U.S. law was applied to the signal emitted from the US but received in Canada).
- 303** See an exception in art. 3:602(2) CLIP.
- 304** Cf. the rationale of the market effect in the Transparency proposal, see *supra* text.
- 305** Japan Supreme Court decision of 26 September, 2002, Minshū Vol. 56, No.7, p. 1551 ("Card Reader"); The Supreme Court of Korea, decision of 22 July 2004 ("X Girl").
- 306** Explanatory note to art. 305 Joint JK, *supra* note 5.
- 307** For the former see art. 2 of Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet; for the later see Denaro, James, *Choice of Law Problems Posed by the Internet and by Satellite Broadcasting*, 1(3) Tulane Journal of Technology and Intellectual Property 1, para. 49 (2000).
- 308** E.g. Dreier/Schulze, *supra* note 56, Vor §§120 ff. para. 42; Thum, Dorothee, *Das Territorialitätsprinzip im Zeitalter des Internet – Zur Frage des auf Urheberrechtsverletzungen im Internet anwendbaren Rechts*, in Bartsch, Michael & Lutterbeck, Bernd (eds.), *Neues Recht für neue Medien* 117-144, 140 (Verlag Dr. Otto Schmid 1998).
- 309** Courts tend to easily find sufficient (economic) connection to the forum, see e.g. Appeal Court of Jena decision of 27.2.2008 - 2 U 319/07 Thumbnails, 7 GRUR-RR 223 (2008) (Germany) (although the website was English, it was found to have a sufficient connection to Germany on the basis that the defendant "displaces the reconfiguration of the pictures into the thumbnails in the hit list of its search engine in Germany").
- 310** Art. 2(b) of Council Directive 93/83/EEC of 27 September 1993 on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission, OJ L 248, 06.10.1993, pp. 15-21.
- 311** Sec. 302(3) ALI, Preliminary Draft of 2005, in Jürgen Basedow et al. (eds.), *Intellectual Property in the Conflicts of Laws* 229-250 (Mohr Siebeck 2005).
- 312** Art. V.3(3) CLIP draft of 2008 (unpublished) ("[i]f it is not possible to determine the applicable law on the basis of paragraph 2, the court shall apply the law of the country where the infringer has its habitual residence or its principal place of business as defined in (2)(a)").
- 313** E.g. art. 3:603(2)(a) CLIP refers to infringers residence, (b) to place of conduct and (c) to place of harm of the infringing activity.
- 314** See *supra* "Main rule."
- 315** Kojima/Shimanami/Nagata, *supra* note 7, p. 200.
- 316** Id.
- 317** According to its drafters, it is supposed to cover, essentially, copyright infringements occurring over the Internet.
- 318** Under CLIP – only if they come up as incidental issues.
- 319** From an individual consultation, see also Kojima/Shimanami/Nagata, *supra* note 7, pp. 200, 214.
- 320** The wording of the Transparency proposal is slightly different, though has the same intention, see art. 302(2) Transparency ("If the result of the application of Paragraph 1 is extremely unreasonable in relation with specific country, the liability or remedy based on the law determined by paragraph 1 shall not be applied in relation to the specific country.").
- 321** Although the exception is of main use for the defendant, a right holder can use it as well, i.e., he/she can claim more extensive damages if they are available under the law of another country.
- 322** See "each party may prove."
- 323** It, however, remains unclear what courts should do in case of such inconsistent decisions.
- 324** Reporters' note 1 to sec. 321 ALI.
- 325** See Reporters' note 1 to sec. 321 ALI.
- 326** Kojima/Shimanami/Nagata, *supra* note 7, p. 199.
- 327** The third, though unlikely possibility, could be that the rule enables *dépeçage*, i.e. application of different laws for different issues (e.g. initial ownership, transferability, remedies).
- 328** Reporters' note 4 to sec. 321 ALI.
- 329** See also Restatement Second, Conflict of Laws § 145; comment f to sec. 222 ALI (considerations to take into account in determining whether to consolidate cases), Reporters' note 2 to sec. 321 ALI.
- 330** Metzger, *supra* note 51, p. 176.
- 331** Explanatory notes to art. 306 Joint JK Proposal, *supra* note 5.
- 332** Kur, Annette, *Applicable Law: an Alternative Proposal for International Regulation – The Max-Planck Project on International Jurisdiction and Choice of Law*, 30(3) Book. J. Int'l L. 952, 973 (2005).
- 333** Supreme Court decision of 13 October 2004 – I ZR 163/02 Hotel Maritime, 5 GRUR Int 433 (2005).
- 334** WIPO has recently started talks on possible review of 2001 Recommendation with a purpose to adjust it to ongoing developments in online markets, see Norton, James, "Should Secondary Liability Online Be Harmonized?", published on 15 March 2011 by Managing Internet IP, available at <http://www.managingip.com/Article/2786671/Managing-Internet-IP-Archive/Should-secondary-liability-online-be-harmonised.html?LSS=EMS505745>.
- 335** See, e.g. *Faulkner v. Nat'l Geographic Enters. Inc.*, 409 F.3d 26 (2005) (USA); *A&M Records, Inc. v. Napster, Inc.*, 239 F.3d 1004 (2001) (USA); *MGM v. Grokster*, 545 U.S. 913 (2005) (USA); *SABAM v. Tiscali*, E.C.D.R. 19 (2007) (Belgium); *Sony v. Ball*, E.C.D.R. 33 (2004) (UK); *Perathoner et al. v. S. Joseph Societe Free*, E.C.D.R. 8 (2003) (France); *Google Inc v. Copiepresse SCRL*, ECDR 5 (2007) (Belgium); *Hit Bit Software GmbH v. AOL Bertelsmann Online GmbH*, ECDR 18 (2001) (Germany); *KODA and others v. Anders Lauritzen and Jimmy Egelbjerg*, ECDR 25 (2002) (Denmark); *Polydor Ltd and others v. Brown and others*, EWHC 3191 (2005) (UK); *Shetland Times Ltd v. Wills*, SC 316 (1997) (UK); *BMG Records v. Heise Zeitschriften Verlag*, MMR 768 (2005) (Germany); *Paperboy*, E.C.D.R. 7 (2005) (Germany); *Thumbnails*, 2 GRUR Int. 148 (2004) (Germany).
- 336** See e.g. District Court of Stockholm decision of 17 April 2009 – B 13301-06, *The Pirate Bay* (Sweden), p. 46 (unpublished) (Sweden), available at <www.ifpi.org> [accessed on 27 April 2009] (the court "regard(s) an offence which involves the making available of something on the Internet as having been committed in a country where the Internet user can obtain the information which has been made available, provided that the making available has legal implications in the country").
- 337** See, e.g. Supreme Court decision of 21 September 2006 – 29 U 2119/06 *Haftung von eBay als Mitstörer für Urheberrechtsverletzungen*, JurPC Web-Dok. 124/2006 (Germany) ("German copyright law is applied as the law of the country for which protection is sought (so called protecting country principle)").
- 338** See District Court of Paris decision of 20 November 2000 – *International League Against Racism & Anti-Semitism* (LICRA) and the *Union of French Jewish Students* (UEJF) v. *Yahoo! Inc.*, 1(3) Electronic Business Law Reports 110 (2001) (French court analyzed to which extent the injunction could be restricted to French territory).
- 339** See, e.g. District Court decision *Sonofon A/S (formerly DMT2 A/S) v IFPI Danmark*, ECDR 10, 16 (2009) (Denmark) (Internet access provider was ordered to terminate the access to the Pirate Bay

- website despite the fact that the persons behind the website were domiciled in Sweden).
- 340 For disadvantages of other alternatives see *supra* text of this chapter.
- 341 In case of ALI “close connection rule,” the situation of right holders is much better since in most cases forum law would have a sufficiently close connection.
- 342 Compare solutions adopted in Rome I and Rome II Regulations.
- 343 See *supra* “Main rule.”
- 344 E.g. art. 2 WIPO Recommendation.
- 345 This also seems to contradict the commentary which states that only the results at the time of filing the suit should be taken into account, see *supra* text of this chapter.
- 346 I.e. trademark infringements online can occur only in states where they are registered and only famous trademarks can be infringed worldwide.
- 347 E.g. in registered trademark cases or where the copyright duration expired in numerous countries.
- 348 E.g. consolidation of actions before a single court.
- 349 E.g. by stopping an infringement in a “source” country where initial copies are made or initial (broadcasting) signals are emitted.
- 350 See e.g. a recently concluded Anti-Counterfeiting Trade Agreement (ACTA); three-strike-rule adopted in law in France, Korea, New Zealand, UK and practiced between stakeholders in U.S. and Ireland.
- 351 E.g. obvious “piracy” cases offline.
- 352 The latter seems to be covered by the ubiquitous infringement rule in Kopila and Joint JK Proposals.
- 353 E.g. author-protective countries may want to prevent the application of the work-for-hire doctrine in respect of that part of online infringements that occur in their territories.
- 354 E.g. the law with the closest connection will be determined taking into account the residence of infringer, the place of infringement, etc.
- 355 Only Joint JK Proposal suggests some interesting deviation from it in copyright cases, see *supra* “Transferability.”
- 356 E.g. Reporters’ note 1 to sec. 321 ALI.
- 357 E.g. it is not clear if the use of thumbnails in a search engine is covered by copyright exceptions in different jurisdictions: it is arguably covered by fair use doctrine in the U.S., whereas it is not covered by copyright exceptions in Germany, see German Supreme Court decision of 29.04.2010, Az. I ZR 69/08 – *Thumbnails*.
- 358 There is no agreed definition of “secondary infringements.” In this study it is used in a broadest sense as covering any activities facilitating, contributing to, initiating, or enabling the primary (direct) infringement.
- 359 Comment h to sec. 301 ALI
- 360 Id.
- 361 Kojima/Shimanami/Nagata, *supra* note 7, pp. 196-198.
- 362 Art. 305 “Recognition of Infringement due to Extraterritorial Activities” reads: “Courts that apply *lex protectionis* find the infringement of intellectual property rights as long as the direct inducement, accessory-ship and substantive preparatory acts of such infringement are directed to the state of protection, even if whole or part of the act was done outside the state of protection, and there is the threat of direct and substantive injury within its territory.”
- 363 See *supra* chapter “De minimis rule.”
- 364 See also Dinwoodie, Graeme B., Dreyfuss, Rochelle, Kur, Annette, *The Law Applicable to Secondary Liability in Intellectual Property Cases*, 42 New York University Journal of International Law and Politics, 201-235, 203 (2010), available at <http://ssrn.com/abstract=1502244>.
- 365 For a collection of publications on secondary liability online see Alain Strowel (ed.), *Peer-to-peer file sharing and secondary liability in copyright law* (Edward Elgar 2009); for a digest of main EU cases on copyright liability online see Strowel, Alain & Matulionyte, Rita, *Online Copyright Liability: Leading European Cases* (European Patent Office 2009), available on www.ipr2.org.
- 366 See *infra*.
- 367 See *infra* “international context.”
- 368 Dinwoodie/Dreyfuss/Kur, *supra* note 364, pp. 216-223.
- 369 E.g. the U.S. root copy theory allows extracting damages from foreign use without taking into consideration if foreign conduct constitutes a direct infringement under a foreign law; TPMs are protected without consideration whether the circumvention leads to a direct infringement.
- 370 Dinwoodie/Dreyfuss/Kur, *supra* note 364, pp. 216-223.
- 371 See Dinwoodie/Dreyfuss/Kur, *supra* note 364, p. 202 (fn. 3).
- 372 *ABKCO Music and Records Inc. v. Music Collection International Ltd* (1995) RPC 675, CA (although the authorization to make an infringement in UK was given in Denmark, the authorization conduct was subject, on the basis of mandatory rules doctrine, to the UK law).
- 373 See *Cable/Home Communication Corp. v. Network Prods., Inc.*, 902 F.2d 829, 845-846 (11th Cir. 1990); *GB Mktg. USA, Inc. v. Gerolsteiner Brunnen GmbH & Co.*, 782 F. Supp. 763, 772-773 (W.D.N.Y. 1991); also *Metzke v. May Dep’t Stores*, 878 F. Supp. 756 (W.D. Pa. 1995) (USA) (the court held that offshore copying will infringe U.S. law if the defendant knew or should have known that copies would be sold in the USA); *Subafilms, Ltd. And others v. MGM-Pathe Communications Co. and Others*, 24 F.3d 1088 (9th Cir. 1994) (U.S. law was not applied when only authorization took place in the USA whereas the primary infringement occurred abroad).
- 374 See Drexel, *supra* note 34, paras. 182-183 (If a defendant acts through a third person, who carries out the actual infringing activities, only the place of the activity of the third person is important); Dreier/Schulze, *supra* note 56, Vor. §§120 ff. 32 (“the local participation in the foreign infringement does not lead to the infringement of a local right”); German Supreme Court decision of 16 June 1994 – I ZR 24/92 *Folgerecht bei Auslandsbezug*, 11 GRUR, 798 (1994).
- 375 See *supra* notes 335-337.
- 376 See Dinwoodie/Dreyfuss/Kur, *supra* note 364, p. 207.
- 377 E.g. District Court of Paris decision of 20 November 2000 – *International League Against Racism & Anti-Semitism* (LICRA) and the *Union of French Jewish Students* (UEJF) v. *Yahoo! Inc.*, 1(3) Electronic Business Law Reports 110 (2001).
- 378 See *supra* “Ubiquitous infringement.”
- 379 Although the provision reads “infringing or non-infringing purposes,” it is likely that the CLIP group meant to cover only the services with are used for both infringing and non-infringing purposes.
- 380 Hamburg Court of Appeal, 30 September 2009, Case No. 5 U 111/08 (District Court of Hamburg), 2010 MMR 51 – *Sharehoster II*.
- 381 Düsseldorf Court of Appeal, 27 April 2010, Case No. I-20 U 166/09 (District Court of Düsseldorf), 2010 MMR 483 – *Rapidshare*.
- 382 See Hague Court of Appeal decision of 15 November 2010 200.069.970/01 – *FTD v. Eyeworks*, unofficial translation available at <http://ipkitten.blogspot.com/p/ftd-v-eyeworks.html>.
- 383 Art. 53(1) German Copyright Statute.
- 384 See ECJ Grand Chamber of the Court, 23 March 2010, Case No C-236/08, C-237/08 and C 238/08, 2010 E.T.M.R. 20, OJEU

C 134/2 22.05.2010, *Google France SARL v. Louis Vuitton Malletier SA et all.*

- 385** See supra chapter “Ubiquitous infringement.”
- 386** See supra “Ubiquitous infringement;” also Dinwoodie/Dreyfuss/Kur, *supra* note 364, p. 213 (on problems of the exception of the ubiquitous infringement rule).
- 387** U.S. is currently leading in the provision of online services.
- 388** A comparable reference to substantive standards was proposed in early ALI drafts .
- 389** In U.S., substantive rules have been taken into account by applying governmental (or states) interests’ theory, for more about this theory see Symeonides, Symeon C., *The American Choice-of-Law Revolution: Past, Present and Future* (Martinus Nijhoff Publishers 2006); in EU, substantive norms have been taken into account when drafting applicable law rules related to e.g. consumer or employment consumer contracts, see arts. 6(2) and 8(1) Rome I Regulation (preventing a possibility to deprive consumers or employees of protection granted under otherwise applicable laws).
- 390** E.g. Moris, Michael R., *ACTA’s Abandoned Third-Party Liability Provisions and What They Mean for the Future*, PIJIP Research Paper no. 10 (2010), available at <http://digitalcommons.wcl.american.edu/research/10/>; Baker, Brook K., *ACTA: Risks of Intermediary Liability for Access to Medicines*, PIJIP Research Paper no. 1 (2010), available at <http://digitalcommons.wcl.american.edu/research/1>.
- 391** The only remaining non-binding reference to the liability of ISPs can be found in art. 27(2) footnote 13 ACTA (“For instance, without prejudice to a Party’s law, adopting or maintaining a regime providing for limitations on the liability of, or on the remedies available against, online service providers while preserving the legitimate interests of right holder.”).