INTELLECTUAL PROPERTY:

PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW,

AND JUDGMENTS IN

TRANSNATIONAL DISPUTES

(with Comments and Reporters' Notes)

Part III

APPLICABLE LAW

Chapter 3

Residual Principles Regarding Choice of Law

§ 321. Law or Laws to Be Applied in Cases of Ubiquitous Infringement

(1) When the alleged infringing activity is ubiquitous and the laws of multiple States are pleaded, the court may choose to apply to the issues of existence, validity, duration, attributes, and infringement of intellectual property rights and remedies for their infringement, the law or laws of the State or States with close connections to the dispute, as evidenced, for example, by:

(a) where the parties reside;

(b) where the parties' relationship, if any, is centered;

(c) the extent of the activities and the investment of the parties; and

(d) the principal markets toward which the parties directed their activities.

(2) Notwithstanding the State or States designated pursuant to subsection (1), a party may prove that, with respect to particular States covered by the action, the solution

provided by any of those States' laws differs from that obtained under the law(s) chosen to apply to the case as a whole. The court shall take into account such differences in determining the scope of liability and remedies.

Comment:

a. In general. In cases of ubiquitous infringements, such as distribution of a work on the Internet, § 321 proposes methods of simplification. (This is in addition to § 302's provision for party designation of a single law to apply to certain aspects of a dispute.) Under subsection (1), the court may apply the law(s) of a single State or a small group of States. Subsection (2) allows the parties to show that the laws of specific jurisdictions differ from the law or laws of the State or States chosen. In such cases, the court should fashion a remedy that takes these differences into account.

b. Close connections. In choosing the appropriate laws to govern the issues in dispute, the parties and the court should seek to determine the places with the most significant relationship to the dispute. Because intellectual property rights are intended to create incentives to innovate, the States most closely connected to that objective are those where the parties resided, made their investment decisions, expected to exploit the work, and (where relevant) entered into a relationship.

Illustration:

1. Alexandra, a Xandian website operator, posted on her site the classic Patrian 1930 motion picture, "Blown Away by the Breeze." Patrick Productions, a resident of Patria, holds the worldwide rights to "Blown Away by the Breeze" and sues Alexandra in Xandia for infringing its global rights. The duration of rights to motion pictures in Xandia and in Patria is 95 years following publication. However, film rights in Tertia endure for only 50 years post-

publication. Patrick Productions seeks to simplify the action by applying a single law to all infringement claims.

If the court finds that the alleged infringing activity is "ubiquitous," under the Principles it may apply a single law to all claims. On these facts, the court can apply the law of Patria because Patrick Productions is a resident of Patria and its filmmaking activities are centered in Patria. Nonetheless, Alexandra may reduce any damage award by demonstrating that "Blown Away by the Breeze" is lawfully distributed in Tertia, where it has fallen into the public domain.

c. The parties' relationship. Examples of relevant relationships in the copyright context include coauthorship of a book, coproduction of a motion picture, or commissioning of materials for inclusion in a compilation; for trademarks, the relationship between a manufacturer and a distributor, a franchisor and franchisee, or among comanufacturers; for patents, licensing and cross-licensing arrangements. The law applicable in these cases may be determined by the nature of the internal relationship, such as contract law. The rationale is that the parties to the relationship should be able to predict the law applicable to their intellectual property rights from the time that that they agree to create the asset.

REPORTERS' NOTES

1. Alternatives to the laws of the countries for which protection is claimed. When a court has asserted its competence to adjudicate a claim alleging infringing acts that occur in several territories, the court's ruling may well affect territories beyond the forum. The normal rule of territoriality would require the court to apply the laws of each affected State to that portion of the infringement occurring within each State's borders. The designation of the law of the place of impact of the wrongful act may yield multiple applicable laws, particularly given the ubiquity of intellectual property rights as well as the transnational character of

digital networks. The greater the number of affected countries, the greater the challenge to the traditional conflict-of-law method.

The European Community Satellite Directive avoids the cumbersome application of multiple territorial laws to satellite transmissions by characterizing the rights-triggering event as the making available of satellite signals from the point of upload, rather than the receipt of signals in the various countries of the European Union. See 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, art. 1.2(b), 1993 O.J. (L 248) 15, available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31993L0083:EN:HTML (last visited Jan. 3, 2008). The point of origin of the alleged infringement may offer an appropriate substitute for application of the laws of all the States of receipt. The substitution presents some problems, however. First, to the extent there are significant disparities in the level of protection, the point-of-origin approach invites relocation of emissions to permissive "intellectual property havens." Second, while for satellite transmissions the point of emission may be readily identified, locating the point of origin of an infringement allegedly committed over digital networks, and particularly in the context of peer-to-peer exchanges, may be elusive if not meaningless.

The 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. Thus, while the court may choose a single (or reduced number of) applicable law(s), the parties may also demonstrate that for certain States where alleged infringements are occurring, local law would produce a significantly different outcome. For example, a court would not provide monetary or

injunctive relief with respect to a State in which the alleged activity is not infringing, even if the same activity is unlawful in all the other States concerned. With the increasing harmonization of national intellectual property laws through multilateral agreements such as the TRIPS Agreement, it may often be fair and reasonable for the court to presume that the relevant States' norms are the same as those of the State whose law is chosen to apply. Cf. Richard Fentiman, Foreign Law in English Courts: Pleading, Proof and Choice of Law 146-153 (1998) (discussing English courts' presumption that the content of foreign law is the same as that of English law). Because the Principles permit proof to the contrary, there remains, however, the possibility that proof that certain States depart from those norms might lead to as much litigation over the content of foreign law as would serial application of the laws of each State for which protection is sought.

2. Factors to determine the State with the "closest connection." Section 321(1) is inspired by the list of factors set out in the Restatement of Foreign Relations § 403(2)(a)-(h). See also Restatement Second, Conflict of Laws § 145 and Comment e; these Principles, § 222 (considerations to take into account in determining whether to consolidate cases).

3. Relevant relationships. For further details on the law applicable to preexisting relationships, see François Dessemontet, Le droit d'auteur 249 et seq. (1999); Melville B. Nimmer & David Nimmer, Nimmer on Copyright § 5.03[B][1][c] (2005).

4. Alternative approaches. The Hague Convention on the Law Applicable to Traffic Accidents, May 4, 1971, 965 U.N.T.S. 411 available at http://www.hcch net/index_en.php?act=conventions.text&cid=81 (last visited Jan. 3, 2008), provides for a cascading test to identify the applicable law based on the closest connection between the parties and the controversy; first the law of the State in which the accident occurred art. 3, then the law of the State in which the car is registered in circumstances in which that State's legal order is deemed to be more closely related to the adjudication of the claims, art. 4. This

is the case for the claims of the driver, the possessor, or the owner of the car; for passengers when they are not residents of the State in which the accident occurred; and for another victim who is a resident of the State of registration; provided, however, that if several cars are involved in the accident, all must be registered in the same State for the law of the State of registration to apply, art. 4. The law so declared applicable will also rule the remedies, such as damages and transferability of the claims, as well as the liability of the principal or employer for his agent or employee, art. 8.

Similarly, an earlier draft of art. 3 of the European Commission's Rome II Proposal for the law applicable to torts (which at the time would have covered some intellectual property claims), provided:

1. The law applicable to a non-contractual obligation should be the law of the country in which the damage arises or is likely to arise, irrespective of the country in which the event giving rise to the damage occurred and irrespective of the country or countries in which the indirect consequences of that event arise.

2. However, where the person claimed to be liable and the person sustaining damage both have their residence in the same country when the damage occurs, the non-contractual obligation shall be governed by the law of that country.

3. Notwithstanding paragraphs 1 and 2, where it is clear from all the circumstances of the case that the non-contractual obligation is manifestly more closely connected with another country, the law of that other country shall apply. A manifestly closer connection with another country may be based in particular on a pre-existing relationship between the parties, such as a contract that is closely connected with the non-contractual obligation in question.

Commission Proposal for a Regulation of the European Parliament and the Council on the Law Applicable to Non-Contractual Obligations (Rome II), COM (2003) 427 final (July 22, 2003), available at http://eur-lex.europa.eu/LexUriServ/site/en/com/2003

/com2003_0427en01.pdf (last visited Jan. 3, 2008). See also François Dessemontet, Conflict of Laws for Intellectual Property in Cyberspace, 18 J. Int'l Arb. 487 (2001). An earlier draft of the Principles essayed a "cascading" approach, but abandoned it when later versions embraced a more dominant role for territoriality. For a still earlier "cascading" proposal, see François Dessemontet and Jane Ginsburg, Proposition commune post-scriptum to François Dessemontet, Internet, le droit d'auteur et le droit international privé, 92 Revue Suisse de Jurisprudence 285, 293-294 (1996).

§ 322. Public Policy (ordre public)

The application of particular rules of foreign law is excluded if such application leads to a result that is repugnant to public policy.

Comment:

a. In general. In considering the scope of any public-policy exception, the court should take into account supranational substantive norms as they evolve. "Public policy" in international cases traditionally covers the most basic principles of civilized nations. It comes into play when application of the otherwise competent law would impinge on the public welfare or violate fundamental rights and freedoms enshrined in the forum's constitutional provisions and international agreements. This is a more restrictive standard than inconsistency with purely domestic law. Because international cases are at issue, the standard is also more restrictive than inconsistency with purely domestic public policy. Section 322 is not the only instance in which the Principles take the intensity of public policy into account; the Principles also look to the policies of other States implicated in the litigation as expressed in their mandatory rules, as provided in § 323. See also
§ 403(1)(e).

b. Result in the forum State that is manifestly contrary to public policy. In keeping with the exceptional character of the application of ordre public, and the Principles' general commitment to territoriality, this Section emphasizes that the incompatibility between the forum's public policy and the result of applying the designated law must not be merely theoretical, but must be based on an impact within the forum State. If a court excludes a particular rule as manifestly contrary to public policy, the court may proceed according to the requirements of local law. (In some States, this may require dismissal of the action; in others, application of domestic law to the pertinent issue.)

Illustration:

1. Paco of Patria, a fashion designer, displays his latest collection in a fashion show in Patria. Phil Phlash, a Xandian resident, attends the show and takes unauthorized photos, which are published in a fashion magazine sold in Patria and in Xandia. Fashion designs are protected under the copyright law of Patria, but not of Xandia. Paco sues in Xandia, claiming violation of his rights in Patria. Phlash defends on the ground that Patrian law violates the strong Xandian public policy that fashion wants to be free.

Under the Principles, the law applicable to violations allegedly occurring in Patria is Patria's. See § 301(1)(b). Under the territorial approach of the Principles, Xandia may not use the ordre public exception to reject the application of Patrian law, because Xandia's public policy should not be affected by applying Patrian law to events occurring in Patria.

REPORTERS' NOTES

1. Policies measured against international standards. This Section contains the traditional reservation in favor of public policy (ordre public), which is to be found in the Hague Conventions since 1956. See, e.g., Hague Convention on the Law Governing Transfer of Title in International Sales of Goods art. 7, Apr. 15, 1958, available at

http://www.hcch.net/index_en.php?act=conventions.text&cid=32 (last visited Jan. 3, 2008); Hague Convention Concerning the Recognition of the Legal Personality of Foreign Companies, Associations and Institutions art. 8, June 1, 1956, available at http://www.hcch.net/index_en.php?act=conventions.text&cid=36 (last visited Jan. 3, 2008); Hague Convention on the Law Applicable to Trusts and on Their Recognition art. 18, July 1, 1985, 23 I.L.M. 1389, available at http://www.hcch.net/index_en.php ?act=conventions.text&cid=59 (last visited Jan. 3, 2008).

The concept of "public order," while difficult to define with precision, would at least encompass public policy as recognized by most civilized countries; it would cover procedural rules such as the right to be heard before a court of law, and substantive rules such as the right not to have one's property confiscated without compensation. Typically, courts impose the public-policy exception when application of the otherwise-competent foreign law would result in effects within the forum that are fundamentally incompatible with the forum's norms, or are repugnant to the forum's system of values.

Examples of precepts generally recognized as expressing significant principles of ordre public include:

- res inter alios acta nec prodest nec nocet (no prejudice to third-party rights)
- prohibition of racially discriminatory and spoliatory measures
- prohibition of expropriation without compensation
- protection of fundamental human rights

See April 3, 2002, X Inc. v. Z Corp., BGE 128 III 191, 198.

2. Strict application. It is important to apply the public-policy doctrine with care; it should not hamper the evolution of commercial practices, especially in the fields of new technology. Furthermore, the application of public policy should not unduly undermine commitments to territoriality. By contrast, the mandatory rules of § 323 may be susceptible to

broader interpretation; see § 323, Comment c. See, e.g., 17 U.S.C. § 203, denying effect to "agreement[s] to the contrary" of the author's termination right. (Section 203 of the U.S. Copyright Act also balances this with greater protections to licensees).

3. The source of public policy. As noted in § 101, Comment e, the Principles use the term "State" to include territorial subdivisions. Accordingly, the public policy at issue could, depending on local law, include the policies of such subdivisions. The Principles are not intended to address the interplay between the national public policies of a State and the public policy of its territorial subdivisions.

4. Fashion wants to be free. See Kal Raustiala & Christopher Sprigman, The Piracy Paradox: Innovation and Intellectual Property in Fashion Design, 92 Va. L. Rev. 1687 (2006).

§ 323. Mandatory Rules

The court may give effect to the mandatory rules of any State with which the dispute has a close connection.

Comment:

a. Mandatory rules generally. "Mandatory rules" express a State's substantive norms. Although many norms are "mandatory" with respect to their application within the territory that prescribes them, "mandatory rules" in the private-international-law sense are rules that must apply regardless of the law that is otherwise applicable, and regardless of the residence of the parties. Mandatory rules need not be limited to the forum's laws, but may also include the laws of other States closely connected to the controversy; see Comment b.

The issue of mandatory rules is most likely to arise when the applicable law has been chosen by the parties. This is because mandatory rules are generally those from which the

parties may not derogate by contract. In order to determine whether the parties' choice of law eludes a mandatory rule of the forum or of another jurisdiction, the court would undertake an inquiry similar to the one in which it would engage to discern applicable law in the absence of a contractual choice.

Notwithstanding these Principles' deference to party autonomy and their provision for application of foreign law, a court applying these Principles may find the forum's or third countries' mandatory rules ("lois de police" or "lois d'application immédiate") to be applicable. This may be the case when, for example, a contract between an employer and an employee creator selects a law unrelated to the cocontractants' activities, in order to give the employer the benefit of the chosen law's designation of employers as initial right holders, while the law most closely connected to the parties would designate the creator the initial right holder and would have imposed protections for the creator. See § 311, Comment b; § 313, Comment d. Section 323 does not, however, require a court to apply mandatory rules. For example, courts in countries that do not recognize the application of third-State mandatory rules are not required to apply them. Courts in consolidated cases should nonetheless pay particular heed to the mandatory rules of States implicated in a multiterritorial action.

b. Mandatory rules of third countries. While courts have more typically applied the mandatory rules of the forum State, there is a growing trend to inquire into and apply the mandatory rules of a third State whose laws are closely connected to the controversy. Similarly, while application of third countries' mandatory rules has more typically involved regulation of competition, as well as protection of consumers, extension to intellectual property cases is appropriate. Principles of international comity counsel in favor of the forum's endeavor to respect a third State's essential social or economic provisions in a suitable international case.

When the mandatory rules of several countries are in conflict, and all of the countries have a connection to the dispute, the court must weigh the relative interests of each State.

Illustration:

1. A, a resident of Xandia, and B, a resident of Patria, enter into a worldwide agreement to license patent and trade-secret rights concerning a technology for refitting diesel engines. The parties agree that the law of Tertia will govern the license. A sues B in Patria for failure to pay royalties under the license. B defends on the ground that the contract is void because it violates Quatria's competition law.

Under these Principles, the law of Tertia is initially applicable. However, party autonomy cannot prevent the application of mandatory rules, such as those imposed by competition law. Nonetheless, the Principles do not require the application of Quatria's competition law. First, the court should determine whether Quatria's law applies on its own terms. If the court finds that Quatria intended to regulate this conduct, it must then weigh the other interests in the case against Quatria's interest. If very little activity took place in Quatria, the court may find that there is too slight a connection with Quatria to recognize the application of its competition law. However, if significant activity occurred in Quatria, then the court may apply Quatria's competition law to partially nullify the agreement (by, for example, refusing to require payment of royalties on account of Quatrian activity). The parties should not be allowed to opt out of competition law by their agreements and the Principles should not lead to the result that Patria would become a haven for anticompetitive conduct.

c. Comparison with public policy. Both mandatory rules and the public-policy exception trump the application of a foreign law that application of choice-of-law rules would otherwise have deemed competent. But a court enforces mandatory rules directly, without inquiring into what would have been the otherwise applicable law. While the application of public policy under § 322 is restricted to the most basic principles of the forum's law in international cases,

mandatory rules are applied because legitimate interests of private parties or of the States require it. Those legitimate interests can impose the application of such rules as currency and customs control, bans on bribery and racketeering, or bars on exportation of cultural goods. These are not ordre public, because they do not lie at the heart of a conception of justice. Nonetheless, these are rules that the parties should not be able to escape through choice-of-law provisions in their agreements or by forum-shopping.

d. Discretionary application. In considering whether to give effect to a mandatory rule, the court should take several considerations into account. It should ascertain the nature and purpose of the mandatory rule and the degree to which it represents an international norm or a value shared among the relevant jurisdictions. The court should address the interests of the parties, particularly when the parties have chosen the applicable law, in order to determine whether the choice of law furthered legitimate interests. The court should also assess the effect of the rule's application on third parties.

REPORTERS' NOTES

1. Mandatory rules generally. This Section is directly inspired by art. 20, 1 of the Belgian Code of Private International Law, itself derived from 7(2) of the Rome Convention, which provides: "Nothing in this Convention shall restrict the application of the rules of the law of the forum in a situation where they are mandatory irrespective of the law otherwise applicable to the contract." Article 9(1) of the Rome I Regulation applies a stricter formulation: "Overriding mandatory provisions are provisions the respect for which is regarded as crucial by a country for safeguarding its public interests, such as its political, social or economic organisation, to such an extent that they are applicable to any situation falling within their scope, irrespective of the law otherwise applicable to the contract under this Regulation." Art. 9(2), however, preserves the forum's application of its "overriding

mandatory provisions": "Nothing in this Regulation shall restrict the application of the overriding mandatory provisions of the law of the forum." The French Cour de cassation applied French mandatory rules to an international intellectual property controversy, in a case involving the broadcasting in France of a U.S. film colorized over the objections of its director and screenwriter. See Cour de cassation, première chambre civile [Cass. 1e civ.], May 28, 1991, Bull. civ. I, No. 172 (Huston v. La Cinq) (Fr.). In that case, the Court characterized moral rights as a mandatory rule ("loi d'application impérative"), whose effect was to relieve the court from inquiring into the normally applicable foreign-law rule, in favor of exclusive and "impérative" application of forum law to the international controversy. On mandatory rules generally, see also Janet Walker, Castel & Walker, Canadian Conflict of Laws § 1-11.c (6th ed. 2005) ("A mandatory law of the forum is a domestic law which a court seized with a case containing at least one legally relevant foreign element must apply in order to protect the political, social and economic organization of the state to the exclusion of foreign laws that might otherwise apply by virtue of the conflict of laws rules of the forum. . . . Mandatory laws exclude all relevant foreign laws because their purpose is to effectuate the forum's vital policy in cases connected with it, even where applicable foreign laws are not excluded on the ground of public policy."); Phocion Francescakis, Quelques précisions sur les "lois d'application immédiate" et leurs rapports avec les règles de conflits de lois, 55 Rev. Crit. Dr. Int'l Priv. 1 (1966).

2. Consideration of the interests of other countries. In addition, the Section admits the possibility that a State affected by the alleged infringement, other than the forum, may also have mandatory rules that might apply despite these Principles' designation of a different applicable law. This is consistent with a growing trend in private international law to take into account not only the mandatory rules of the forum, but also, in appropriate circumstances, of third countries. See, e.g., art. 20. 2 of the Belgian Code of Private International Law, inspired

by art. 7(1) of the Rome Convention, which provides: “When applying under this Convention the law of a country, effect may be given the mandatory rules of the law of another country with which the situation has a close connection . . . .” See also Swiss Law on Private International Law art. 19. Art. 9 of the Rome I Regulation allows for the application of certain third-country mandatory rules: “Effect may be given to the overriding mandatory provisions of the law of the country where the obligations arising out of the contract have to be or have been performed, in so far as those overriding mandatory provisions render the performance of the contract unlawful. In considering whether to give effect to those provisions, regard shall be had to their nature and purpose and to the consequences of their application or non-application.” Art. 16 of the Rome II Regulation provides for application of the forum’s mandatory rules; art. 14(3) allows in certain circumstances for application of mandatory rules of European Community law, and art. 14(2) permits application of mandatory rules of any third State if all the relevant events occurred there. For example, suppose a U.S. court were to hear an infringement claim touching a multitude of countries, including France; and that French law did not apply to the entirety of the claim, but that France had a strong interest in local vindication of the author’s moral rights. Although U.S. law might be found to apply to the case in general, the court should apply French moral-rights law—which is mandatory law in France—at least to the French portion of the case.

3. Comity. The application of the mandatory rules of third countries can be seen as a way of making sure that “conflicting laws of different nations work together in harmony—a harmony particularly needed in today’s highly interdependent commercial world,” see F. Hoffmann-La Roche Ltd. v. Empagran S.A., 542 U.S. 155, 164-165 (2004).

§ 324. Exclusion of the Renvoi

Except as provided in § 202(3)(a), the law of any State declared applicable under these Principles does not include its choice-of-law rules.

Comment:

a. In general. The objective of these Principles is to determine with predictability the applicable law. Because renvoi may lead to the application of an unpredictable law or add undue complexity to a controversy, it is appropriate to exclude it.

b. "Borrowing statutes" distinguished. The renvoi should not be confused with "borrowing statutes." These permit use of another State's law under specified circumstances, for example Berne Convention art. 7(8), which permits member States to choose the shorter of (1) the domestic copyright term and (2) the copyright term in the country of origin. See also id. art. 2(7) (protection of works of applied art subject to rule of reciprocity rather than national treatment). While akin to renvoi in operation, borrowing statutes are conceptually quite different, because they designate specific solutions to specific problems; renvoi, by contrast, leads a court from one choice-of-law rule to another.

c. Effect of excluding the renvoi. In very exceptional cases, § 324 may mean that the forum may apply a law that the courts in the State whose law is deemed to govern would not themselves apply. However, the benefits of avoiding circularity suggest that excluding the renvoi is the correct approach. It is particularly appropriate when the applicable law was chosen by the parties because, in those cases, the intent is to use the designated substantive law to govern their affairs; excluding the renvoi usually gives full effect to party autonomy. The exception is § 202(3)(a), in which the Principles permit the forum designated in a choice-of-court clause to apply its choice-of-law rules. In most cases, those rules will designate the application of the law the parties selected to govern their agreement as a whole. Thus, in this particular context, allowing the renvoi promotes party autonomy.

REPORTERS' NOTE

This Section is directly inspired by art. 15 of the Rome Convention [art. 20 of the Rome I Regulation], which provides: "Exclusion of Renvoi. The application of the law of any country specified by this Convention means the application of the rules of law in force in that country other than its rules of private international law." See also Rome II, art. 24. A similar solution has been adopted by the Swiss Law on Private International Law art. 14,and by the Belgian Code of International Private Law art. 16.