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**INTELLECTUAL PROPERTY:
PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW,
AND JUDGMENTS IN
TRANSNATIONAL DISPUTES
(with Comments and Reporters' Notes)**

**Part II
JURISDICTION**

Introductory Note:

This Part recommends bases of jurisdiction that are appropriate for transnational intellectual property cases and that form a fair predicate for obliging a party to defend in the forum. Chapter 1 deals with the court's power over the litigants; Chapter 2 deals with the court's power over the subject matter, and Chapter 3 with the dispute as a whole. In offering rules that can be invoked by lawyers and applied by courts from both civil- and common-law traditions, the Principles employ terminology chosen to be generally comprehensible, regardless of the jurist's national legal tradition. As a result, the Principles forgo certain terms of art, well known in one system, but unfamiliar to the other, in favor of expressions intended to be sufficiently descriptive of the concepts conveyed. The Principles do not set out generally accepted rules of due process; it is assumed that the forum's law regarding such matters as notice and opportunity to be heard will conform to international standards. If in any particular case the rendering court's procedures were not compatible with fundamental principles of fairness, that judgment will not be recognized or enforced. See § 403(1).

The issues covered in Chapters 1 and 2 must be evaluated separately. For example, authority over the litigant is generally dependent on, and proportionate to, the nature of the litigant's activities. However, no matter how broad that power is, the court must also have authority over the subject matter of the dispute. At the same time, the court's power over the subject matter does not confer jurisdiction over the parties. These Chapters do not purport to include all the bases of authority that are currently recognized. Thus, there will be situations where the Principles consider it inappropriate to resolve a transnational dispute in a court that has authority to do so under its own domestic law. In such situations, the parties may proceed at their own risk, for the Principles will not support (or, indeed, may prohibit) the enforcement of the resulting judgment; see Part IV. Conversely, the Principles do not adopt all of the limits that a State may impose on its courts' assertions of adjudicatory authority. Thus, there will be situations where domestic law does not permit a court to adjudicate a dispute in the manner envisioned by the Principles. If States come to appreciate the efficiency and fairness values that underlie the Principles, they might consider expanding the scope of their courts' authority to adjudicate multiterritorial claims.

Chapter 3 is designed for disputes that would otherwise be subject to piecemeal adjudication in more than one State. The overarching goal is to make litigation more economical and substantively fair. Courts have sometimes attempted to streamline litigation by applying local law to extraterritorial events. The Principles reject that approach, see Part III. Instead, they aim to create efficiency through coordinated adjudication, thereby allowing local law to govern when that is appropriate. The Principles achieve efficiency by combining civil-law and common-law approaches. The civil-law tradition, codified in *lis pendens* rules, is to prevent parallel litigation by channeling disputes to the court first seized. That court has no (or little) authority to refuse to entertain the suit; conversely, other courts have no authority to hear a case presenting the same claims. In common-law jurisdictions, the doctrine of forum

non conveniens also serves a channeling role: it gives a court power to stay (or dismiss) proceedings on the ground that the court is not appropriate, and that a better forum exists elsewhere.

The Principles combine these two approaches as follows. In most instances, the court first seized has the primacy accorded by the lis pendens doctrine (§ 221), here called “coordination” authority. Courts entertaining related disputes must dismiss (or stay) their cases in favor of this forum. However, the primacy of the court first seized starts as administrative primacy. Thus, the court’s first task is to decide whether the cases should be streamlined through cooperation or consolidation. If the latter, then the court must, in a manner akin to forum non conveniens determinations, decide the appropriate court to hear the consolidated case (§ 222). Once that court is determined, other courts stay their proceedings while the parties proceed in the forum chosen by the court first seized (§ 223). After the case is resolved in that court, any court that has stayed its proceedings would then dismiss the action. If, however, the case is not prosecuted within a reasonable time, the stay should be lifted.

Illustrative Overview:

JCo, a Japanese company, develops a program that allows computer owners to share digitized movie files with their peers. The program can be downloaded for free from JCo’s Japanese-language website; JCo makes its money by selling various informational products. JCo then enters into a licensing agreement with USCo, whereby USCo is permitted to offer JCo’s shareware at its English-language website, along with informational products. The companies agree to take reasonable steps to avoid selling informational products in one another’s markets. Similar agreements are made with ICo, an Indian company, covering the market for Indian products, and a German firm, GCo, for Europe.

Knowing that it and its business partners are likely to be sued by MajorMovieCo, a worldwide film producer with its seat in the United States, JCo brings an action against MajorMovieCo in Freedonia, where MajorMovieCo regularly films and markets movies. JCo asks for a declaration that it is not liable on any theory of copyright infringement anywhere. Knowing that Freedonia's courts are extremely slow to act and that the State does not recognize claims for contributory or vicarious copyright infringement, MajorMovieCo brings its own series of infringement actions: first, against JCo in Japan, then against each of JCo's business partners in the United States, India, and Germany, asserting against each defendant rights under the relevant copyright laws of every nation where files are downloaded. MajorMovieCo would like to coordinate all of these actions in a single court.

Under the Principles, each court would determine its adjudicatory authority over the parties (§§ 201-207) and its power over the dispute (§§ 211-214). The "court first seized" under these Principles will determine how the global dispute should be adjudicated (§ 221). It would decide whether efficiencies could be gained through coordinated adjudication and whether these efficiencies would best be captured through cooperation or consolidation. If consolidation is the option chosen, it would also pick the court to hear the case (§ 222). Other courts would then stay their actions (§ 223).

Jurisdiction. The courts in the State where each defendant operates have personal jurisdiction over that defendant (§ 201). As an initial matter, it may appear that because each defendant took reasonable steps to leave its partners' markets alone, only Japan has jurisdiction over JCo, only India has jurisdiction over ICo, etc. However, because each of the countries where MajorMovieCo has sued is the residence of one of the defendants, § 206 is available to expand personal jurisdiction over the others. This is a situation where there is a risk of inconsistency as to whether file-sharing is permissible on the Internet, and whether there is, through JCo., a relationship among the parties. And because JCo's and

MajorMovieCo's territorial copyright claims are all considered part of the series of transactions in which the various companies are engaged, it is likely that under its domestic law, the court chosen would have subject-matter jurisdiction over all territorial claims.

Coordination. At first blush, it may appear that coordination decisions should be made by the Freedomian court because the first action was brought there. However, that action there sought a declaration of nonliability. Thus, under § 213(4), authority to coordinate does not attach. For these purposes, the Japanese court was the one "first seized" under § 221(5). The Japanese court would then determine, under the criteria set out in § 222, whether worldwide claims should be handled through cooperation or consolidated. If each cooperating court is in a State where an infringement has occurred, then cooperation would allow each court to apply its own law (see § 301), but acquiring and taking of evidence might be streamlined. In this case, however, consolidation is likely the better course because it would promote efficiency and avoid inconsistency. The State with the closest connection to the dispute is either Japan, where the activity was initiated, or the United States, which is likely the State of title of most of the works about which MajorMovieCo is concerned. The courts in either State are acceptable under § 222(4)(f) because they have procedures consistent with international norms as evidenced by the States' common membership in the WTO. The ultimate choice may depend on whether there are novel issues (such as the law on contributory and vicarious liability) at stake.

Once a court is chosen to hear the global dispute, other courts can dismiss or stay proceedings, but may—if consistent with the forum State's law—require the parties to post bonds (§ 223(3)). However, if any of the courts finds provisional relief is appropriate, it may order such relief against defendants that are subject to its authority (§ 214). If the case is not prosecuted in a timely manner, courts that ordered stays may lift them and proceed to adjudicate their cases (§ 223(4)).

Admittedly, coordination can create new opportunities for dilatory practice. But it also brings the parties together and hence may promote settlement.

REPORTERS' NOTES

1. Utility of coordination. The intellectual property community has developed considerable interest in finding ways to streamline litigation of multijurisdictional infringements. The AIPPI Resolution on Question Q174 notes that “[i]n a world where business is global,” means are needed to enforce intellectual property judgments on a multinational basis. Although this Project differs from the AIPPI’s vision of new international, bilateral, and multinational agreements, the approach taken is similar. It creates a method of coordinating parallel actions, either through cooperation among courts seized, or by consolidating parallel actions in a single court—in many instances, the court of a State in which the defendant has acted—and giving that court authority to issue judgments, based on the law of other territories, that would (absent public-policy considerations) be binding and enforceable in other territories’ courts. Cf. *Mattel Inc. v. Woolbro (Distributors) Ltd.*, HC-03 No. CO2684 (Oct. 23, 2003) (consolidating European Community design-right claims); *Coral Corp. K.K. (Kabushiki Kaisha) v. Marine Bio K.K.* (Tokyo D. Ct. Oct. 16, 2003) (consolidating a U.S. patent claim with Japanese patent claims). See also International Law Association Committee on International Civil and Commercial Litigation, Third Interim Report on Declining and Referring Jurisdiction in International Litigation, 24-35 (2000), available at <http://www.ila-hq.org/pdf/Civil%20&%20Commercial%20Litigation/CommLitigation.pdf> (last visited Jan. 3, 2008) (describing “new solutions” to parallel litigation).

2. Tendencies in U.S. courts to expand the reach of domestic laws to cover foreign infringements. No single jurisdiction is likely to write law that expressly deals with multinational disputes; however, courts have shown considerable temptation to apply their

domestic law extraterritorially; see, e.g., *AT & T Corp. v. Microsoft Corp.*, 414 F.3d 1366 (Fed. Cir. 2005) (applying U.S. patent law to the transfer of software onto foreign-assembled computers from “golden master” disks or electronic transmissions originating in the United States), rev’d, 127 S. Ct. 1746 (2007); *Los Angeles News Service v. Reuters Television International Ltd.*, 340 F.3d 926 (9th Cir. 2003) (applying U.S. law to communication overseas of videotaped news event when the initial communication was made within the United States); *Update Art, Inc. v. Modiin Pub’g, Ltd.*, 843 F.2d 67, 73 (2d Cir. 1988) (applying U.S. copyright law to infringements in Israel that resulted from an initial reproduction of the work in the United States). However, although the Supreme Court of the United States started the trend in *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952), it subsequently expressed considerable unease with that approach, stating that statutes should be construed so that “conflicting laws of different nations work together in harmony—a harmony particularly needed in today’s highly interdependent commercial world.” *F. Hoffmann-La Roche Ltd. v. Empagran S.A.*, 542 U.S. 155, 164-165 (2004). Coordination provides an important way for international law to evolve in a manner that better accommodates worldwide interests. See generally Graeme B. Dinwoodie, *A New Copyright Order: Why National Courts Should Create Global Norms*, 149 U. Pa. L. Rev. 469 (2000).

3. Illustrative Overview. The illustration is loosely based on the facts described in *Metro-Goldwyn-Mayer Studios Inc. v. Grokster, Ltd.*, 125 S. Ct. 2764 (2005). A similar case in Japan involved the File Rogue program, which was held to violate Japanese copyright laws. For a description of the case, see *Japanese ‘Napster’ Shut Down*, available at <http://www.p2pnet.net/story/403> (last visited Jan. 3, 2008).

4. Analogous projects. Insolvency is another area where considerations of efficiency and fairness may militate in favor of developing an international mechanism to consolidate dispute resolution. The ALI’s *Transnational Insolvency* volume, *Principles of Cooperation*

Among the NAFTA Countries (hereinafter Transnational Insolvency Principles), attempts to develop such a method for managing bankruptcy within NAFTA countries; UNCITRAL has promulgated a Model Insolvency Law with some of the same goals in mind. See UNCITRAL Model Law on Cross-Border Insolvency available at <http://www.uncitral.org/pdf/english/texts/insolven/insolvency-e.pdf> (last visited Jan. 3, 2008). See generally Jay Lawrence Westbrook, *International Judicial Negotiation*, 38 *Tex. Int'l L.J.* 567 (2003). Such projects have been criticized on the grounds that it will be difficult for a court in one jurisdiction to assert adjudicatory authority over creditors and assets in other locations; that the "wholesale" effects of bankruptcy will interfere too severely with the authority of foreign sovereigns to impose their own preferences among local creditors; and that each nation's desire to protect local creditors will trap all relevant States in unproductive prisoners' dilemmas; see Frederick Tung, *Is International Bankruptcy Possible?*, 23 *Mich. J. Int'l L.* 31 (2001). Most of these problems are either not present or less significant in the intellectual property context. The parties over whom jurisdiction is needed have engaged in voluntary association with the forum or its intellectual property. Further, because of existing international agreements on intellectual property, national approaches to intellectual property rights may be closer than are approaches to insolvency.