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

Part III

APPLICABLE LAW

Chapter 2

Title to and Transfer of Rights

Introductory Note

This Chapter addresses the law applicable to ownership of rights; it does not address the law applicable to determine whether the rights exist or are infringed. The latter are covered by §§ 301 and 321(1). While territoriality remains the default rule for infringement and for most issues regarding registered rights, some unregistered rights, particularly copyright and neighboring rights, generally arise worldwide out of the act of creation, rather than upon complying with any State's formalities or substantive examination. As a result, rather than making ownership subject to the different laws of the different countries in which the work is exploited, which could lead to uncertainty in the exercise of rights, it makes more sense to identify an owner who will, initially, be considered the owner of these intellectual property rights throughout the world.

§ 311. Initial Title to Registered Rights

(1) Initial title to rights that arise out of registration is governed by the law of each State of registration, except as provided in subsection (2).

(2) When the subject matter of the registered right arises out of a contractual or other preexisting relationship between or among the parties, initial title is governed by the law that governs the contract or relationship.

Comment:

a. State of registration. With respect to rights that arise out of registration, because these rights are the most territorial of intellectual properties, a coherent approach holds that the State whose laws will determine the existence and scope of the rights would also designate the ownership of the rights. The Principles follow that approach, but with an important modification for contractual relationships.

b. Contractual relationships. The Principles propose applying the law of the relationship to determine initial ownership of rights in the subject matter of registered rights: where a contract creates or confirms the relationship and selects a governing law, that law will apply to determine initial ownership; in the absence of an agreement, the law of the State with the closest connection to the parties and the subject matter will apply. As a practical matter, most questions regarding initial title arise in the context of employment agreements. The Principles favor the solution of party autonomy, as it gives a uniform answer throughout the world. Knowing that the initial title holder will be the same throughout the world facilitates marketability and enhances the value of the registered rights. The primacy of party autonomy may, however, create a risk that employers and similar co-contractants will impose a national law unrelated to the parties or the subject matter of the rights, solely for the purpose of denominating the employer the initial owner. This concern may be more theoretical than

practical, however, because many States in which employers are resident may limit the extent to which employers may contract out of local law. See, e.g., SPIL art. 121(3) (limiting choice of law governing employment contracts to the laws of the employer's or the employee's residence). Moreover, where other States impose employee-protective mandatory rules, the court may take account of these by virtue of § 323.

In addition, the law governing the contractual relationship may impose requirements for perfection of title in the registered right. So may also the law of the State of registration. The party to whom the applicable law assigns the right must comply with both those requirements.

c. Preexisting relationship. The relationship contemplated in § 311(2) includes employment relationships.

REPORTERS' NOTE

Subject matter of registered rights created pursuant to a contractual arrangement. Section 311(2) is inspired by article 60 of the EPC, concerning subject matter created pursuant to an employment contract. Art. 60 designates application of the law of the State where the inventor is principally employed. This connecting factor is more pertinent than the employee's residence, because the focus of inquiry is on the employment relationship rather than the employee. While the employee may often reside at his or her place of employment, some employees may work as expatriates for an employer outside the State of the main place of business of the employer. Under the EPC, the residual connecting factor is the residence of the employer.

Art. 60 of the EPC provides:

Right to a European Patent: (1) The right to a European patent shall belong to the inventor or his successor in title. If the inventor is an employee, the right to the European patent shall be determined in accordance with the law of the State in which the employee is mainly

employed; if the State in which the employee is mainly employed cannot be determined, the law to be applied shall be that of the State in which the employer has his place of business to which the employee is attached.

The Principles follow a similar idea, but instead designate the application of the law of the State whose law governs the employment contract. This law may often be that of the place of employment, or of the employer's residence, but these connecting factors are arguably proxies for the law with the most significant connection to the employment relationship. The State whose law the parties have selected, or where (in default of a choice-of-law clause) the contract is localized, may more closely correspond to the essence of the employment, with respect to a particular creation. In some countries, however, local law limits the freedom of parties in choosing the law applicable to the employment relationship. See, e.g., Swiss Law on Private International Law art. 121(3). As Professor Ulmer explained, one reason national laws impose this approach is to "prevent the possible choice of a legal system which is more favorable to the employer by the inclusion of standard clauses in contracts of employment," see Eugen Ulmer, *Intellectual Property Rights and the Conflict of Laws*, pp. 73 & 101 (1978). Ulmer also counseled application of the law governing the employment relationship with respect to design patents ("dessins et modèles"), *id.* art. I(4).

§ 312. Initial Title to Unregistered Trademark and Trade-Dress Rights

(1) Initial title to an unregistered trademark or trade dress is governed by the law of each State in which the trademark or trade dress identifies and distinguishes the source of the goods or the services, except as provided in subsection (2).

(2) When there is a contractual or other preexisting relationship among the parties, the law applicable to that contract or relationship will govern initial title.

Comment:

a. Territoriality of trademark ownership. Although trademark rights in some States do not arise out of registration (or do not exclusively arise out of registration), they tend to be bounded. This is because trademarks symbolize the goodwill of the product or service to its consumers. The trademark exists where there is a market for the goods or services that the mark identifies. Unregistered trademark rights cannot arise without the connection between the mark and the goods or services. For some trademarks, market recognition may be worldwide; for others, it may be national or regional. Accordingly, the same mark may have different owners in different markets.

Illustration:

1. Edelweiser is a mass-market beer that dominates the Pontevedran market. The beer was first produced in Pontevedro by Danilo, an immigrant from the town of Edelweiss in far-away Freedonia. For many years, Edelweiser was sold only in Pontevedro. In the meantime, in the Freedonian town of Edelweiss, Zeppo has started up a brewery and has given its product the town's name, Edelweiser.

Under these Principles, Danilo (or his successors) owns the Edelweiser mark in Pontevedro, and Zeppo (or his successors) owns it in Freedonia. With respect to other States, rights to the unregistered mark will depend on which entrepreneur first develops goodwill in each market.

b. Contractual or preexisting relationship. When a market is developed under a licensing agreement, the law governing the licensing agreement determines who the owner of the mark is in the new market. The law governing the contract may designate the ownership of the licensor rather than the licensee who is actually providing the goods and services to that market. This approach was adopted to reflect the notion that in preexisting relationships, the

parties desire a single owner. The contract governs only rights between the parties; it does not affect local rules regarding validity of the trademark or attribution of goodwill. See § 302.

Illustration:

2. Edelweiser (Pontevedro) has begun expanding into foreign markets. It licenses Gummo to sell its beer in the State of Chaos. The agreement between Edelweiser (Pontevedro) and Gummo is governed by Pontevedran law, which attributes to the licensor the goodwill generated by the licensee. Gummo accordingly develops that market. Later, it terminates its agreement with Edelweiser (Pontevedro), but continues to sell beer under the Edelweiser mark in the State of Chaos. Gummo asserts that, notwithstanding the licensing agreement, under which Edelweiser would own the mark in Chaos, Gummo, as the actual exploiter of the mark in Chaos, owns it as a matter of Chaotic law.

Under § 312(2), the contract determines initial ownership of the unregistered trademark rights in Chaos. Thus, as between Edelweiser (Pontevedro) and Gummo, Edelweiser (Pontevedro) is the owner in the State of Chaos. However, the contract cannot affect third parties, such as consumers. If Chaotic law would disregard the contract's attribution of goodwill to the licensor, and instead looks to consumers' understanding of the mark, then Edelweiser would be able to enforce its trademark rights in Chaos only if it can demonstrate that Chaotic consumers associate the mark with Edelweiser. In other words, while the license cannot give Edelweiser trademark rights in Chaos, it can preserve the licensor's ability (*vis à vis* the licensee) to enter the market and earn the goodwill that Chaotic law requires to establish trademark rights.

REPORTERS' NOTES

1. Preexisting relationship. The Principles employ the term "preexisting relationship" as well as contractual relationship, because controversies arise not only in a licensing

relationship, but also when a mark has been exploited by multiple co-owners, such as family members, whose relationship subsequently deteriorates. See, e.g., *Gucci v. Gucci Shops, Inc.*, 688 F. Supp. 916, 920-921 (S.D.N.Y. 1988) (agreement among family members, if binding, would have determined Paolo Gucci's rights to use his name as a trademark for his independent leather-goods business). See also the Swiss de Terry case, RSPIDA 1976, at 64 cons. 4d, citing Bundesgericht [BGer] [Federal Court], Mar. 30, 1965, BGE 91 II 117, 125 and BGer, Sept. 13, 1957, BGE 83 II 312, 335, which involved the entitlement of Spanish family members to use a family name as a company name and a house name. The Swiss Supreme Court, which entertained the case after the Spanish Supreme Court decided the same issue for Spain, stated that:

The Spanish Supreme Court held that the company name of the Defendant can sufficiently be distinguished from that of the Plaintiff and ordered its inscription in the register for industrial property. The Swiss judge can consider that the use in Switzerland by the Defendant of the company name amounts as such to unfair competition vis-à-vis the Plaintiff only to the extent that a particular danger of confusion regarding the name of the two companies exists in Switzerland.

This decision indicates that the Swiss courts will look to the decision rendered by the courts of the place where the family company was formed to determine ownership of the trademark. However, where under that State's law, the trademark or trade name may be shared, the Swiss court retains the right under Swiss law to dispel local confusion. See also the Swiss conflict-of-law rule, Swiss Law on International Private Law art. 155(d).

2. Illustration 2. This Illustration is inspired by one of the Budweiser/Budvar controversies, see BGer, Feb. 15, 1999, BGE 125 III 193 (*Anheuser-Busch, Inc. v. Budejovicky Budvar Narodni Podnik*) (Switz.) (holding for the Czech company based on geographic-denomination protection, rather than trademark law).

§ 313. Initial Title to Other Rights That Do Not Arise Out of Registration

(1) Initial title to other rights that do not arise out of registration is governed by:

(a) If there is one creator, the law of the creator's residence at the time the subject matter was created;

(b) If there is more than one creator:

(i) the law of one of the creators' residences, as designated by contract between or among the creators;

(ii) if no contract resolves the issue, the law of the State in which the majority of the creators resided at the time of the creation of the subject matter;

(iii) if no contract resolves the issue and a majority of the creators did not reside in the same State, the law of the State with the closest connection to the first exploitation of the subject matter; or

(c) If the subject matter was created pursuant to an employment relationship, the law of the State that governs the relationship; or

(2) If the State whose law would govern under subsection (1) does not extend protection to the subject matter, then initial title is governed by the law of the first State in which the subject matter is exploited and the right is recognized.

Comment:

a. Single place of initial title. Some unregistered rights, particularly copyright, generally arise worldwide out of the act of creation, rather than upon complying with any State's formalities or substantive examination. 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. Accordingly, it is preferable to designate an owner who will, initially, be considered the owner of the intellectual property rights throughout the world. Once the starting point for the vesting of rights is identified, it becomes possible to trace and to validate further grants. Admittedly, this approach will not create complete certainty, so long as States remain free to reject the application of the law initially designating ownership, when the designation produces a result fundamentally contrary to public policy (*ordre public*) in that State. While the Principles preserve a role for *ordre public* (see § 322), its application should be truly exceptional. For example, some States may assign a high public-policy value to laws protecting employee-creators; those policies would seem to be most intense when the employment relationship is centered in the employee-protective State. It is less clear that an employee-protective policy is implicated when the employment relationship is centered elsewhere.

b. Point of attachment for determining initial ownership. These Principles do not designate the “country of origin” as the point of attachment for determining initial title to intellectual property rights. That term is well-established in other contexts in intellectual property law, and, at first blush, would appear to offer a unifying point of reference for determining worldwide rights ownership. In fact, however, the term proves rather unwieldy in this context. 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.

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. Arguably, this linkage could promote a sort of “forum-shopping” for the most creator-protective law. That risk (if indeed it is a “risk” deserving of concern or

condemnation) is nonetheless attenuated: The residence of the creator, who (as used in the Principles) is always a natural person and thus has only one residence (§ 201(2)), is usually stable, or if it changes, generally does so without regard to possible choice-of-law consequences. “Residence at the time of the work’s creation” is not the same criterion as “place of creation.” The latter is not a test adopted by these Principles because it may be entirely fortuitous or unrelated to the work’s subsequent commercialization, for example, if the author is simply visiting or passing through a country when inspiration strikes. As the recently enacted Belgian Code of Private International Law elaborates, “circumstances of a personal or professional nature that show durable connections with that place or indicate the will to create such connections” are strong indicia of residence; art. 4(2)(1).

c. Joint works. If the cocreators have different residences, they may resolve by contract the problem of a multiplicity of points of attachment in the case of works of collaboration, by designating the law of one of their States of residence. The 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 residence of the author. (Section 313(1)(c) allows an important derogation in the case of employee works, however.) In the absence of such an agreement, the court should refer to the law of the State most closely connected overall to the creation and dissemination of the work.

Questions may arise concerning the law applicable to the rights and obligations of joint authors (or, with respect to neighboring rights, joint performers): may any coauthor license rights without the others’ accord; is there a duty to account? The law of the State in which the joint authorship is localized will determine the existence and extent of those rights and obligations.

Illustration:

1. Tweedle Dee and Tweedle Dum both reside in Patria, where they coauthored the novel Slithy Tove. Under Patrian law, in the absence of a contract to the contrary, any coauthor may grant nonexclusive rights in the work without the others' accord, but must account for any profits to coauthors. Without consulting Tweedle Dum, Tweedle Dee grants nonexclusive worldwide rights in the work.

If Tweedle Dee and Tweedle Dum did not contract to the contrary, Tweedle Dee's grant of rights will be valid, but he must split the proceeds of both domestic and foreign exploitation with Tweedle Dum. If, by contrast, the Tweedles did enter into a contract requiring that all grants be jointly authorized, and/or allocating the proceeds unequally among coauthors, the law of the contract would govern.

d. Works created pursuant to an employment relationship. The "law of the contract" governs the question whether the actual creator will in fact be vested with initial title to the intellectual property subject matter, or whether another person or entity, such as the employer, will enjoy initial ownership. This can be either the law specified by the contract or, if there is no choice-of-law clause, then the law of the State in which the contract is localized (or the law of the State with which the contract has the greatest connection). The person or entity that is the owner pursuant to the law of the contract should then, under these Principles, be considered the initial owner in all States whose authorities subscribe to these Principles.

Illustration:

2. The motion picture "It's Not About the Money" is publicly exhibited for the first time at the annual Film Festival in the State of Chaos. None of the film's creative participants reside in Chaos. Moreover, the director, the screenwriter, and the composer all resided in different States at the time of the work's creation. The issue of the work's initial ownership is raised in litigation.

The coauthors' residence in several different States at the time of the film's creation eliminates a point of attachment based on the authors' residence (assuming they have not executed a contract designating one State of residence). In the case of an audiovisual work first divulged at a film festival in a State other than the State in which the creative participants reside, the connection between that State and the film's creation and exploitation may be too attenuated to warrant application of Chaos's ownership rules to the film. A more pertinent law would be that of the State from which the film's distribution and marketing were organized. If, by contrast, the coauthors are employees, the law of the State governing their relationship with the film producer will determine who the initial owner of the copyright in the film is.

If the contract determines the law applicable to initial ownership, the concern arises that the dominant party to an author-employment contract will choose a national law designating the dominant party as the initial right holder. In Illustration 2, this would be the case if the producer of "It's Not About the Money" were resident in a creator-vesting State, but selected the law of a producer-vesting State to govern the employment contract with the film's contributing coauthors. As discussed in § 311, Comment b, however, this concern may in fact be more theoretical than practical. Section 323 of the Principles provides the creators further recourse, because it 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.

e. Cases where the law designated does not provide a solution. Section 313 makes the author's residence the point of attachment for determining initial ownership. In most instances, this will provide a clear point of departure for analyzing a chain of title. But anomalies may occur if, in the designated State, the work is not protected, for example, because that State does not protect a given category of works, or imposes a merit or quality threshold that the author's work does not meet. How can one trace ownership from a place

where the author is not an owner because she has nothing to own? Section 313(2) addresses this problem by designating the law of the State of first exploitation. This criterion derives from one of the Berne Convention's points of attachment, the State of first publication. With respect to many works, particularly those not initially disclosed over digital networks, the State in or from which the work is first made available to the public, whether by transmission or by distribution of copies, will be the State whose laws have the most significant relationship to the work. By 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.

Illustration:

3. Beaccount, Ltd. is a Freedomian-based database producer with an effective establishment in the United Kingdom. Its Freedomian employees have compiled a nonoriginal database of all widget manufacturers in Freedomia and the European Union. Under Freedomia law, there is no *sui generis* protection of nonoriginal databases. Beaccount first distributed copies of the database in the United Kingdom. While Freedomian law would normally determine who the initial owner of *sui generis* database rights is, it is not competent to designate the initial owner of a work not protected under that law. Therefore, UK law will apply to determine whether the initial owner of the database is the employer or the employee(s) who gathered and systematized the information.

REPORTERS' NOTES

1. Fortuitous character of place of upload. See, e.g., Jane C. Ginsburg, *The Cyberian Captivity of Copyright: Territoriality and Authors' Rights in a Networked World*, 15 Santa Clara Computer & High Tech. L.J. 347 (1999).

2. Point of attachment, linked to the residence of the creator. Cf. Berne Convention art. 5(4)(c) (creator's residence as point of attachment for country of origin of unpublished works).

There are "country of origin" definitions in other statutes as well. For example, the U.S. federal marking statute, 19 U.S.C. § 1304, requires every item imported into the United States to be marked in a manner that indicates "the country of origin of the article." Australia's Free Trade Practices Act similarly requires country-of-origin representations on imported products, see Trade Practices Amendment (Country of Origin Representations) Act 1998 (Austl.), available at <http://www.aph.gov.au/Library/pubs/BD/1997-98/98bd213.htm> (last visited Jan. 3, 2008); Alexander Moriarty, Australia—Trade Legislation: Country-of-Origin Product Labeling, 5 Int'l Trade L. & Reg. N-17 (1999). International trade agreements have similar requirements, see, e.g., North American Free Trade Agreement art. 311, Dec. 17, 1992, 32 I.L.M. 289, available at http://www.nafta-sec-alena.org/DefaultSite/index_e.aspx?DetailID=78 (last visited Jan. 3, 2008). See also *id.* annex 311. However, the definitions provided in these agreements are not appropriate here. First, there is no general international consensus on a single definition. Second, these measures apply to tangible goods, where the main problem is determining how much transformation in the state of the goods is necessary to change the country-of-origin designation. Transformations are sometimes a problem in intellectual property (a book can be transformed into a play, for example). However, the main problem will often be that the work is created by mingling multiple international inputs, cf. Rochelle Cooper Dreyfuss, Collaborative Research: Conflicts on Authorship, Ownership, and Accountability, 53 Vand. L. Rev. 1161 (2000). Thus, the rules used for goods are not apposite.

3. Relationship to Berne Convention, art. 14bis(2)(a). The Principles' approach may be inconsistent with art. 14bis(2)(a) of the Berne Convention, which generally submits

“[o]wnership of copyright in a cinematographic work” to the laws of the “countr[ies] where protection is claimed.” This is the only provision of the Berne Convention to specify a rule of copyright ownership. The rule, however, is more complicated than first appears, for subsections (b) and (c) impose a complex presumption conferring on the producer the control over the film’s exploitation even with respect to countries in which contributing coauthors are deemed copyright owners. (The presumption does not apply in countries in which the producer is already vested with copyright ownership.) As a practical matter, these provisions displace the role of the law in certain States of exploitation in order to achieve a result to which the Principles also aspire: the efficient multiterritorial exploitation of the work. The Principles do not attempt to replicate the Berne solution, which is widely viewed as incoherent and unworkable: it “does very little to achieve the uniform system for the exploitation of cinematographic works that was desired by its originators,” Sam Ricketson & Jane C. Ginsburg, *International Copyright and Neighbouring Rights: The Berne Convention and Beyond* 7.41 (2006).

4. Other points of attachment. Four other points of attachment, each in some way compatible with the principle of territoriality, can be considered in order to establish the law applicable to the initial title to unregistered rights. Each of them, ultimately, must be rejected for the reasons indicated below.

First, initial title can be deemed to be governed by the *lex fori*, i.e., the law of the jurisdiction seized. This solution, however, would encourage forum-shopping, and would be unpredictable. A licensee needs to know, at the time of negotiating the license, if the party with whom he or she is negotiating in fact is the owner of the rights it purports to license. The law applicable to determining ownership therefore must be ascertainable at the time of licensing.

Second, if an intellectual property right is considered to be analogous to real property, the initial title can be subject to the *lex rei sitae*, as proposed by Jacques Raynard, *Droit d'auteur et conflits de lois: Essai sur la nature juridique du droit d'auteur* 391-411 (1990). In this case, the right would be localized in the territory of the State where it is actually exploited, Muriel Josselin-Gall, *Les contrats d'exploitation du droit de propriété littéraire et artistique: Étude de droit comparé et de droit international privé* 276 (1995) (indicating, however, that the cases Raynard relies upon are consistent with both *lex rei sitae* and *lex loci delicti*), which will be in fact the State for which protection is sought, Raynard, *supra*, at 410. This latter theory is also unsatisfactory. If the work is exploited in more than one State, then this approach could lead to designating different initial owners. This would undermine predictability.

Third, initial title to unregistered rights can be subject to the *lex loci delicti commissi*, as proposed by Lucas and Lucas, André Lucas & Henri-Jacques Lucas, *Traité de la propriété littéraire et artistique* 869-876 (3d ed. 2006). This theory extends the law that would govern the violation of an intellectual property right to the determination of initial ownership regarding the same intellectual property right; see Josselin-Gall, *supra*, at 280. This approach encounters the same criticism as the *lex rei sitae* approach, however,

Fourth, initial title to unregistered rights can be governed by the law of the country of origin of the work. This approach gives a “nationality” to works that does not change whenever protection is sought in another State or every time rights in the work are violated in a different country, Raynard, *supra*, at 360. See also the comments to the “country of origin” theory in Josselin-Gall, *supra*, at 283-288 (describing the evolution of French case law regarding the law applicable to initial ownership of copyright). Cf. Mireille van Eechoud, *Choice of Law in Copyright and Related Rights: Alternatives to the Lex Protectionis* 121-124 (2003). The Principles favor a fixed point of attachment for determining initial ownership, but

adopt the country-of-origin approach only as a subsidiary point of attachment (see § 313(2)). The Berne Convention art. 5(4), links the point of attachment for country of origin to publication, rather than to the residence of the creator(s), or, in the case of works created pursuant to a contract, to the law governing the relationship.

§ 314. Transferability

(1) The intellectual property law of each State for which rights are transferred governs the extent of their transferability for each State.

(2) The law of each state for which rights are transferred determines any recordation rules relating to the transfer, and the effect, if any, of failure to comply with them.

Comment:

a. Transferability. The “transferability” of a right refers to whether the right can be transferred at all. It also encompasses all intellectual property law requirements necessary to the effectiveness of the grant to transfer rights, for example, as provided in the relevant intellectual property legislation.

Illustrations:

1. Pipsi Beverage Co. assigns worldwide trademark rights in the registered Pipsi mark to Icy Pop Co. Pipsi does not transfer any of its beverage business to Icy Pop, nor does it cease making beverages.

Pipsi’s assignment, without any of the goodwill of its business, is an assignment “in gross.” Under the Principles, the trademark law of each State in which the Pipsi mark is registered will apply to determine whether such assignments are valid for that territory.

2. The film director Jan Dallas made the black-and-white motion picture “The Cypriot Cygnet” under contract with the producer Welter Sisters; the contract purported to transfer all

of Dallas's economic and moral right, title, and interest in and to the film for all countries. It also specified that U.S. law applied. Welter subsequently "colorized" the motion picture, and licensed the altered film's broadcast in France. Dallas objects that the broadcast violates her moral right to preserve the integrity of the film, and that, under French copyright law, this right is inalienable.

The court would look to the copyright law of the State of exploitation, in this case France, to determine if moral rights are transferable. Because under French law they are not alienable, Dallas's transfer of moral rights is ineffective as to France. By contrast, if Welter Sisters licensed the colorized film's broadcast in a State in which moral rights are transferable, then Dallas would have no claim under that State's law.

3. Welter Sisters (of Illustration 2) seeks to exploit the colorized motion picture in Patria, a country that permits assignments of moral rights. However, Patria's copyright law also requires that all assignments of exclusive rights be in writing and signed by the author. If Dallas did not sign her contract with Welter Sisters, then she retains her moral rights (and, for that matter, her economic rights) in Patria.

b. Recordation. Some States require that transfers of rights or interests in patents, copyrights, trademarks, or other intellectual properties be recorded. The Principles do not purport to displace local rules promoting effective title-searching. Transferees who fail to record will incur whatever risks local law imposes.

REPORTERS' NOTES

1. Law of State for which rights transferred. This 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, see, e.g., Belgian Code of Private International Law art. 94(1).

2. Illustrations. Illustration 2 is based on Cour de cassation, première chambre civile [Cass. 1ère civ.], May 28, 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 (see § 323).

3. Other alienability restrictions. The practical significance of submitting transferability to each State of protection is highlighted when other conditions on transfer are considered, such as the unwaivable right of EU authors and performers to mandatory remuneration under Council Directive 2006/115/EC, art. 5.2, 2006 O.J. (L 376) 28, available at http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_376/l_37620061227en00280035.pdf (last visited Jan. 3, 2008). Under the Principles, the obligation to remunerate authors and performers would apply only to the transfer of rental rights for member States of the European Union.

§ 315. Transfers of Title and Grants of Licenses

(1) Except as provided in subsection (3),

§ 314, and §§ 316-317, the contract law of the State designated by agreement of the parties governs a transfer of interest in, or grant or license of, intellectual property rights.

(2) In the absence of a choice-of-law agreement, the contract law of the State with the closest connection to the contract governs. The contract is presumed to be most closely connected to the State in which the assignor or the licensor resided at the time of the execution of the contract.

(3) (a) In standard form agreements of transfer or licenses, the contract law of the State designated in the contract governs if the choice-of-law provision is valid in light of the factors set out in § 302(5).

(b) If the choice-of-law clause is not valid under this Section, the applicable law is determined according to subsection (2).

Comment:

a. Contractual issues. Under § 315, rules of general applicability to contracts are supplied by the law governing the contract.

Illustration:

1. Vincent, a Patrian playwright, orally grants Patrian impresario Sol nonexclusive rights to perform his play, Dubious, in Patria and Xandia over the next three years. The next year, Vincent executes and signs a writing granting Xeno exclusive rights to perform Dubious in Xandia. The Vincent-Xeno contract specifies that Patrian law applies. When Sol that same year seeks to perform the play in Xandia, Xeno sues in Xandia; Sol defends on the basis of his oral agreement with Vincent. Neither country's copyright law makes specific provision for grants of nonexclusive rights. Patria's contract law, however, includes a Statute of Frauds provision requiring that contracts whose duration exceeds one year must be in writing. Because Patria is the country with the closest connection to the Vincent-Sol oral agreement, its contract law, including its Statute of Frauds, will govern the validity of the oral agreement. Thus, Sol has no rights in either Patria or in Xandia.

b. Standard form agreements. These agreements include promotional contests in which the public is invited to submit such subject matter as illustrations, short stories, slogans, and jingles. As with other terms in standard form agreements, the Principles require enhanced scrutiny.

c. Default rule in case no choice has been made. In the absence of a contractual choice of law, the applicable law is that of the State with the closest connection to the contract. This is the general test in most contemporary systems of conflict of laws. In practice, the application of the closest-connection test will usually lead to the State where the assignor or the licensor has its main business establishment or its residence. 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 the obligor of the "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.

The presumption of application of the law most closely connected with the residence or main business establishment of the assignor may not be helpful when, for example, that State does not recognize intellectual property rights in the subject matter of the assignment; see Illustration 3 to § 313, or when the assignor has more than one residence, § 201(3).

d. Relationship to security interests. Section 317(1) provides that a different set of applicable law rules, entirely outside the Principles, governs the perfection, priority, and enforcement of security interests in intellectual property rights.

REPORTERS' NOTE

1. Substantive conditions on transfer. The approach of §§ 314-315 is consistent with *Corcovado Music Corp. v. Hollis Music, Inc.*, 981 F.2d 679 (2d Cir. 1993). A U.S. court there 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.” Cf. *Campbell Connelly & Co. v. Noble*, [1963] 1 W.L.R. 252 (Ch. 1962) (holding U.S. copyright law applies to determine assignability of renewal term, but English contract law determines whether the assignment was correctly effected). Under the Principles, U.S. law would govern both the question whether the U.S. renewal term could be assigned, and the question whether the terms of the contract met the requirements for transferability. But general requirements such as whether the agreement must be witnessed, would come within the scope of the law of the contract.

Earlier versions of this Section assigned a broader domain to the law governing the contract, proposing a rule akin to the court’s approach in *Campbell Connelly*; at first glance, this would have reduced the number of laws potentially applicable to a multiterritorial grant of rights. This simplification might, however, have proved illusory for States whose intellectual property laws dictate the form of a transfer, for example, by requiring that any transfer be in writing and specify each exploitation for which rights are granted. This is because the Principles preserve the application of mandatory rules, not only of the forum but

of “any State with which the dispute has a close connection.” See § 323.

2. Characteristic performance: “Generally, the characteristic performance in a contract is the performance for which payment is due. . . . It can often be thought of as the activity that gives a contract its name,” see Paul Lagarde, *The European Convention on the Law Applicable to Contractual Obligations: An Apologia*, 22 *Va. J. Int’l L.* 91, 97 (1981).

§ 316. Transfers by Operation of Law (Involuntary Transfers)

(1) For rights that arise out of registration, the law of the State of registration governs transfers by operation of intellectual property law.

(2) For rights that do not arise out of registration, transfer by operation of law is determined by the intellectual property law of the State for which protection is sought.

Comment:

The Principles do not propose choice-of-law rules for transfers effected pursuant to laws regulating inheritance, marriage, competition (antitrust), or other national laws of more general application. At issue are only intellectual property-specific transfers.

Illustration:

1. Tyrrania’s copyright code provides for the mandatory transfer to the State of copyrights in the works of dissident writers. Zotsin, a Tyrranian author, is a dissident and his work is transferred to the State. Tyrrania seeks to enforce the copyright in Zotsin’s work in Xandia.

Under the Principles, the effect in Xandia of the forcible transfer of Zotsin’s copyright will depend on whether Xandia recognizes the Tyrranian transfer.

REPORTERS' NOTE

The Illustration is inspired by 17 U.S.C. § 201(e), holding ineffective involuntary transfers of this kind. A similar result was reached in *Peer International Corp. v. Termidor Music Publishers Ltd.*, [2004] Ch. 212 (C.A. 2003) (U.K.) discussed in Stephen Sampson, *Music Publishing – Conflict of Laws*, 15(1) Ent. L. Rev. 26 (2004), in which the Court of Appeal declined as a matter of public policy to give effect in England to a Cuban expropriation of Cuban composers' copyrights. As a result, the German licensee of the Cuban publishing company that had acquired the expropriated copyrights was held not to have copyright interests in England.

§ 317. Security Interests

(1) The laws pertaining to the existence, attributes, and the extent of transferability of intellectual property rights are applicable with respect to secured transactions to the same extent that they apply to other transactions involving intellectual property rights.

(2) These Principles do not address the law applicable to the perfection, priority, or enforcement of security interests in intellectual property rights.

Comment:

a. Security interests generally. There is an emerging body of international norms governing the perfection, priority, and enforcement of security interests. International organizations such as UNCITRAL, the Hague Conference on Private International Law, and UNIDROIT are currently developing rules in these areas. These Principles are not intended to derogate from those projects' proposals. Rather, they address the law governing the existence, attributes, transferability, and transfer of the intellectual property rights that may be the subject matter of secured transactions.

Illustrations:

1. NeilCo., a resident of the UK, borrows £ 1,000,000 from Berkeley Bank in the UK and secures the obligation with a security interest in its worldwide trademark rights. Subsequently, NeilCo. borrows €1,000,000 from Crédit Nantais, secured by the same assets. Neither security agreement specifies that a security interest in the business accompanies the security interests in its trademark rights.

Under these Principles, the law of each State in which NeilCo. has trademark rights will determine whether an interest in the trademark rights may be transferred independently of the business to which they are appurtenant. These Principles do not address the law applicable to determine priority rights as between Berkeley Bank and Crédit Nantais.

2. Same facts as above, except that NeilCo. grants only one security interest, to Berkeley Bank. NeilCo. then defaults on its obligation. Berkeley would like to enforce its security interest in its collateral.

These Principles do not address the law applicable to Berkeley's realization on its collateral. By contrast, these Principles do address the law applicable to an action seeking to enforce the rights in the NeilCo. trademark against an alleged infringer, whether the action is brought by NeilCo. or Berkeley.

b. Extent of transferability. Section 314 recognizes that in a given State an intellectual property right may be only partially transferable. A security interest may be obtained in the transferable portion, but not with respect to the interests that are not transferable.

Illustration:

3. See the facts of § 314, Illustrations 2 and 3. The economic interests in "The Cypriot Cygnet" may be transferred, even though French moral rights are not alienable.

c. Security interests and insolvency. Security interests have their greatest economic importance when the debtor is insolvent. This raises issues of bankruptcy law in addition to

secured-transactions law. Substantive law and conflict-of-laws rules of secured transactions are interdependent. The policies underlying these Principles could provide guidance in the insolvency context.

REPORTERS' NOTE

For examples of emerging international rules on the law governing security interests, see United Nations Convention on the Assignment of Receivables in International Trade, Dec. 12, 2001, 41 I.L.M. 777, available at <http://www.uncitral.org/pdf/english/texts/payments/receivables/ctc-assignment-convention-e.pdf> (last visited Jan. 3, 2008); and the Hague Convention on the Law Applicable to Certain Rights in Respect of Securities Held with an Intermediary, July 5, 2006, available at http://www.hcch.net/index_en.php?act=conventions.pdf&cid=72 (last visited Jan. 3, 2008). The law on security interests is also harmonizing on a regional basis, see, e.g., Organization of American States [OAS], Model Inter-American Law on Secured Transactions, available at http://www.oas.org/dil/CIDIP-VI-securedtransactions_Eng.htm (last visited Jan. 3, 2008), European Bank for Reconstruction and Development [EBRD], Model Law on Secured Transactions, available at <http://www.ebrd.com/country/sector/law/st/core/modellaw/modellaw.pdf> (last visited Jan. 3, 2008). For U.S. law on these issues, see U.C.C. §§ 1-301 (2004), 1-105 (2000), and 9-301 (2004).