

As of the date of publication, this Draft has not been considered by the members of The American Law Institute and does not represent the position of the Institute on any of the issues with which it deals. The action, if any, taken by the members with respect to this Draft may be ascertained by consulting the Annual Proceedings of the Institute, which are published following each Annual Meeting.

## The American Law Institute

---

### INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES

---

#### *Proposed Final Draft*

(March 30, 2007)

---

#### **SUBJECTS COVERED:**

Revisions to:

- Part I. Definitions and Scope of the Principles
- Part II. Jurisdiction
  - Chapter 1. Personal Jurisdiction over the Defendant
  - Chapter 2. Jurisdiction over the Subject Matter
  - Chapter 3. Jurisdiction over Simplification: Coordinating Multiterritorial Actions
- Part III. Applicable Law
  - Chapter 1. In General
  - Chapter 2. Title to and Transfer of Rights
  - Chapter 3. Residual Principles Regarding Choice of Law
- Part IV. Recognition and Enforcement of Foreign Judgments in Transnational Cases
  - Chapter 1. In General
  - Chapter 2. Remedies
- Glossary

---

Submitted by the Council to the Members of  
The American Law Institute  
for Discussion at the Eighty-Fourth Annual Meeting  
on May 14, 15, and 16, 2007

---

The Executive Office  
THE AMERICAN LAW INSTITUTE  
4025 Chestnut Street  
Philadelphia, Pa. 19104-3099  
Telephone: (215) 243-1600 • Telecopier: (215) 243-1636  
E-mail: [ali@ali.org](mailto:ali@ali.org) • Website: <http://www.ali.org>

© 2007 BY THE AMERICAN LAW INSTITUTE  
ALL RIGHTS RESERVED

# The American Law Institute

ROSSELL B. PERKINS, *Chair of the Council and President Emeritus*  
MICHAEL TRAYNOR, *President*  
ROBERTA COOPER RAMO, *1st Vice President*  
ALLEN D. BLACK, *2nd Vice President*  
BENNETT BOSKEY, *Treasurer*  
SUSAN FRELICH APPLETON, *Secretary*  
LANCE LIEBMAN, *Director*  
ELENA A. CAPPELLA, *Deputy Director*

## COUNCIL

KENNETH S. ABRAHAM, University of Virginia School of Law,  
Charlottesville, VA  
SHIRLEY S. ABRAHAMSON, Supreme Court of Wisconsin, Madison, WI  
PHILIP S. ANDERSON, Williams & Anderson, Little Rock, AR  
SUSAN FRELICH APPLETON, Washington University School of Law, St. Louis, MO  
JOSÉ I. ASTIGARRAGA, Astigarraga Davis, Miami, FL  
SHEILA L. BIRNBAUM, Skadden, Arps, Slate, Meagher & Flom, New York, NY  
ALLEN D. BLACK, Fine, Kaplan & Black, Philadelphia, PA  
BENNETT BOSKEY, Washington, DC  
AMELIA H. BOSS, Temple University, James E. Beasley School of Law,  
Philadelphia, PA  
MICHAEL BOUDIN, U.S. Court of Appeals, First Circuit, Boston, MA  
WILLIAM M. BURKE, Sheppard, Mullin, Richter & Hampton, Costa Mesa, CA  
ELIZABETH J. CABRASER, Lief Cabraser Heimann & Bernstein,  
San Francisco, CA  
HUGH CALKINS, Initiatives in Urban Education Foundation,  
Cleveland Heights, OH  
GERHARD CASPER, Stanford University, Stanford, CA  
WILLIAM T. COLEMAN, JR., O'Melveny & Myers, Washington, DC  
EDWARD H. COOPER, University of Michigan Law School, Ann Arbor, MI  
N. LEE COOPER, Maynard, Cooper & Gale, Birmingham, AL  
GEORGE H.T. DUDLEY, Dudley, Topper and Feuerzeig, St. Thomas, U.S. VI  
CHRISTINE M. DURHAM, Supreme Court of Utah, Salt Lake City, UT  
KENNETH C. FRAZIER, Merck & Co., Inc., Whitehouse Station, NJ  
GEORGE CLEMON FREEMAN, JR., Hunton & Williams, Richmond, VA  
PAUL L. FRIEDMAN, U.S. District Court, District of Columbia, Washington, DC  
CONRAD K. HARPER, Simpson Thacher & Bartlett, New York, NY  
GEOFFREY C. HAZARD, JR.\*, University of California, Hastings College of the  
Law, San Francisco, CA; University of Pennsylvania Law School,  
Philadelphia, PA  
D. BROCK HORNBY, U.S. District Court, District of Maine, Portland, ME  
WILLIAM C. HUBBARD, Nelson Mullins Riley & Scarborough, Columbia, SC  
VESTER T. HUGHES, JR., Hughes & Luce, Dallas, TX  
MARY KAY KANE, University of California, Hastings College of the Law,  
San Francisco, CA  
HERMA HILL KAY, University of California at Berkeley School of Law,  
Berkeley, CA

\**Director Emeritus*

CAROLYN DINEEN KING, U.S. Court of Appeals, Fifth Circuit, Houston, TX  
CAROLYN B. LAMM, White & Case, Washington, DC  
DOUGLAS LAYCOCK, University of Michigan Law School, Ann Arbor, MI  
PIERRE N. LEVAL, U.S. Court of Appeals, Second Circuit, New York, NY  
DAVID F. LEVI, U.S. District Court, Eastern District of California,  
Sacramento, CA  
BETSY LEVIN, Washington, DC  
HANS A. LINDE, Salem, OR  
MARTIN LIPTON, Wachtell, Lipton, Rosen & Katz, New York, NY  
MYLES V. LYNK, Arizona State University, Sandra Day O'Connor College of  
Law, Tempe, AZ  
ROBERT MACCRATE, Sullivan & Cromwell, New York, NY  
MARGARET H. MARSHALL, Supreme Judicial Court of Massachusetts,  
Boston, MA  
JOHN J. MCKETTA, III, Graves, Dougherty, Hearon & Moody, Austin, TX  
VINCENT L. MCKUSICK, Pierce Atwood, Portland, ME  
DANIEL J. MELTZER, Harvard Law School, Cambridge, MA  
ROBERT H. MUNDHEIM, Shearman & Sterling, New York, NY  
KATHRYN A. OBERLY, Ernst & Young, New York, NY  
ROSWELL B. PERKINS, Debevoise & Plimpton, New York, NY  
HARVEY S. PERLMAN, University of Nebraska-Lincoln, Lincoln, NE  
ELLEN ASH PETERS, Supreme Court of Connecticut (retired), Hartford, CT  
LOUIS H. POLLAK, U.S. District Court, Eastern District of Pennsylvania,  
Philadelphia, PA  
ROBERTA COOPER RAMO, Modrall, Sperling, Roehl, Harris & Sisk,  
Albuquerque, NM  
MARY M. SCHROEDER, U.S. Court of Appeals, Ninth Circuit, Phoenix, AZ  
WM. REECE SMITH, JR., Carlton Fields, Tampa, FL  
JANE STAPLETON, Australian National University College of Law, Canberra,  
Australia; University of Texas School of Law, Austin, TX; University of  
Oxford, England  
ROBERT A. STEIN, University of Minnesota Law School, Minneapolis, MN  
LARRY S. STEWART, Stewart Tilghman Fox & Bianchi, Miami, FL  
MICHAEL TRAYNOR, Cooley Godward Kronish, San Francisco, CA  
BILL WAGNER, Wagner, Vaughan, McLaughlin & Brennan, Tampa, FL  
PATRICIA M. WALD, Washington, DC  
WILLIAM H. WEBSTER, Milbank, Tweed, Hadley & McCloy, Washington, DC  
GEORGE WHITTENBURG, Whittenburg Whittenburg Schachter & Harris,  
Amarillo, TX  
HERBERT P. WILKINS, Boston College Law School, Newton, MA  
JAMES H. WILSON, JR., Sutherland, Asbill & Brennan, Atlanta, GA  
DIANE P. WOOD, U.S. Court of Appeals, Seventh Circuit, Chicago, IL

*Emeritus Council Members*

ROGER C. CRAMTON, Cornell Law School, Ithaca, NY  
WILLIAM H. ERICKSON, Denver, CO  
NICHOLAS DEB. KATZENBACH, Princeton, NJ  
ERNEST J. SARGEANT, Ropes & Gray, Boston, MA  
LAWRENCE E. WALSH, Crowe & Dunlevy, Oklahoma City, OK

**Intellectual Property: Principles Governing Jurisdiction,  
Choice of Law, and Judgments in Transnational Disputes  
Proposed Final Draft**

Comments and Suggestions Invited

We welcome written comments on this draft and ask that they be addressed to the Director and the Reporters; their contact information appears below. Unless expressed otherwise in the submission, by submitting written comments the author authorizes The American Law Institute to retain the submitted material in its files and archives, and to copy, distribute, publish, and otherwise make it available to others, with appropriate credit to the author.

Reporters

Professor Rochelle C. Dreyfuss  
New York University School of Law  
40 Washington Square South Room 336  
New York, NY 10012-1005  
Fax: 1-212-995-4760  
Email: [dreyfussr@juris.law.nyu.edu](mailto:dreyfussr@juris.law.nyu.edu)

Professor Jane C. Ginsburg  
Columbia University School of Law  
435 West 116th Street  
Box D-9  
New York, NY 10027-7201  
Fax: 1-212-854-7946  
Email: [ginsburg@law.columbia.edu](mailto:ginsburg@law.columbia.edu)

Professor François Dessemontet  
Morne Diago  
Vitet 97133  
Saint Barthelemy  
Fax: 011-59-05-90-29-75-49  
Email: [Francois.Dessemontet@unil.ch](mailto:Francois.Dessemontet@unil.ch)

Director

Professor Lance Liebman  
The Executive Office  
THE AMERICAN LAW INSTITUTE  
4025 Chestnut Street  
Philadelphia, PA 19104-3099  
Fax: (215) 243-1636  
Email: [director@ALI.org](mailto:director@ALI.org)

**Intellectual Property: Principles Governing Jurisdiction,  
Choice of Law, and Judgments in Transnational Disputes**

REPORTERS

ROCHELLE C. DREYFUSS, New York University School of Law, New York,  
NY

JANE C. GINSBURG, Columbia University School of Law, New York, NY

FRANÇOIS DESSEMONTET, Saint Barthelemy, French West Indies

ADVISERS

GRAEME W. AUSTIN, University of Arizona, James E. Rogers College of  
Law, Tucson, AZ

IAN C. BALLON, Greenberg Traurig, Santa Monica, CA

DANIEL R. BERESKIN, Bereskin & Parr, Toronto, ON, Canada

EDWARD H. COOPER, University of Michigan Law School, Ann Arbor, MI  
[from 2005]

JEFFREY P. CUNARD, Debevoise & Plimpton, Washington, DC [from 2004]

GRAEME B. DINWOODIE, Chicago-Kent College of Law, Illinois Institute of  
Technology, Chicago, IL

RICHARD FENTIMAN, Queens' College, University of Cambridge,  
Cambridge, England

RICHARD GARNETT, Melbourne Law School, University of Melbourne,  
Victoria, Australia [from 2003]

MICHAEL A. GEIST, University of Ottawa Law School, Ottawa, ON, Canada

PAUL GOLDSTEIN, Stanford Law School, Stanford, CA

ROBIN JACOB, Court of Appeal of England and Wales, London, England

CATHERINE KESSEDIAN, University of Panthéon-Assas (Paris II), Paris,  
France

TOSHIYUKI KONO, Kyushu University Faculty of Law, Fukuoka, Japan

ANNETTE KUR, Max-Planck-Institute for Intellectual Property, Competition  
and Tax Law, Munich, Germany

ANDRÉ LUCAS, University of Nantes, Nantes, France

M. MARGARET MCKEOWN, U.S. Court of Appeals, Ninth Circuit, San Diego,  
CA

SAMUEL K. MURUMBA, Brooklyn Law School, Brooklyn, NY

DAVID NIMMER, Irell & Manella, Los Angeles, CA

DAVID C.L. PERKINS, Milbank, Tweed, Hadley & McCloy, London, England

HARVEY S. PERLMAN, University of Nebraska, Lincoln, NE

SHIRA PERLMUTTER, IFPI Secretariat, London, England

PAMELA SAMUELSON, University of California at Berkeley School of Law  
and School of Information Management and Systems, Berkeley, CA

HERBERT F. SCHWARTZ, Ropes & Gray, New York, NY

LINDA J. SILBERMAN, New York University School of Law, New York, NY

COENRAAD JOHANNES VISSER, University of South Africa, Pretoria, South  
Africa

#### LIAISONS

DAVID P. STEWART, Washington, DC, for the United States Department of State

JULE L. SIGALL, for the United States Copyright Office [to 2006]\*

ELAINE WU, Alexandria, VA, for the United States Patent and Trademark Office

ANDREA SCHULZ, The Hague, Netherlands, for the Hague Conference on Private International Law

HANNU WAGER, Geneva, Switzerland, for the World Trade Organization, Intellectual Property Division

J. CHRISTIAN WICHARD, for the World Intellectual Property Organization (WIPO) [to 2006]\*

#### CONSULTANT TO THE REPORTERS

RUFUS JAN PICHLER, New York University School of Law, New York, NY [from 2005]

#### EX OFFICIO

ROSWELL B. PERKINS, New York, NY

*Chair of the Council and President Emeritus, The American Law Institute*

MICHAEL TRAYNOR, San Francisco, CA

*President, The American Law Institute*

LANCE LIEBMAN, New York, NY

*Director, The American Law Institute*

---

\*Neither the U.S. Copyright Office nor WIPO has replaced its former liaison.

MEMBERS CONSULTATIVE GROUP

**Intellectual Property: Principles Governing Jurisdiction,  
Choice of Law, and Judgments in Transnational Disputes**

(as of February 13, 2007)

CHARLES W. ADAMS, Tulsa, OK	THOMAS L. CUBBAGE, III, Washington, DC
ROBERT ANTHOINE, New York, NY	JAMES W. DABNEY, New York, NY
DAVID J. ARONOFSKY, Missoula, MT	CHRISTOPHER SCOTT D'ANGELO, Philadelphia, PA
JOSEPH R. BANKOFF, Atlanta, GA	VINCENT M. DEL BUONO, Abuja, Nigeria
SANDRA S. BARON, New York, NY	JAMES SHOLTO DOUGLAS, Supreme Court of Queensland, Brisbane, Australia
MARGRETH BARRETT, San Francisco, CA	ALLEN K. EASLEY, St. Paul, MN
SIMON K. BARSKY, Valley Village, CA	WALTER A. EFFROSS, Washington, DC
JOHN S. BECKERMAN, Camden, NJ	PETER D. EHRENHAFT, Washington, DC
JEFFREY L. BLEICH, San Francisco, CA	RICHARD L. FIELD, Cliffside Park, NJ
AMELIA H. BOSS, Philadelphia, PA	MARK E. FOSTER, San Jose, CA
HILDY BOWBEER, St. Paul, MN	GEORGE CLEMON FREEMAN, JR., Richmond, VA
RONALD A. BRAND, Pittsburgh, PA	LINDA A. FRIEDMAN, Birmingham, AL
STEPHEN MCG. BUNDY, Berkeley, CA	JON M. GARON, St. Paul, MN
DAVID JOHN BURMAN, Seattle, WA	JAMES PAUL GEORGE, Fort Worth, TX
HANNAH L. BUXBAUM, Bloomington, IN	RAYMOND L. GIFFORD, Denver, CO
ROBERT L. BYER, Pittsburgh, PA	R. NICHOLAS GIMBEL, Philadelphia, PA
PETER H. CARSON, San Francisco, CA	ANDREW C. GREENBERG, Tampa, FL
WILLIAM RICHARD CASTO, Lubbock, TX	MICHAEL GREENWALD, Wynnewood, PA
STEPHEN YEE CHOW, Boston, MA	SHELDON W. HALPERN, Albany, NY
DAVID S. COALE, Dallas, TX	
DAVID K. COHEN, London, England	
NEIL B. COHEN, Brooklyn, NY	
LEIANNE S. CRITTENDEN, Redwood City, CA	

PATRICIA ISELA HANSEN,  
Austin, TX

MICALYN SHAFER HARRIS,  
Ridgewood, NJ

RICHARD E. V. HARRIS,  
Piedmont, CA

TREVOR CLAYTON HARTLEY,  
Surrey, England

JAN P. HELDER, JR.,  
Kansas City, MO

DALE HERSHEY, Pittsburgh, PA

ERNEST R. HIGGINBOTHAM,  
Richardson, TX

JOHN F. HILSON,  
Los Angeles, CA

JOAN SIDNEY HOWLAND,  
Minneapolis, MN

ARNETTE R. HUBBARD, Illinois  
Circuit Court of Cook County,  
Chicago, IL

EDWIN E. HUDDLESON, III,  
Washington, DC

ROBERTA JACOBS-MEADWAY,  
Philadelphia, PA

MARK R. JOELSON,  
Washington, DC

BERYL R. JONES, Brooklyn, NY

MICHELE C. KANE, Burbank, CA

CEM KANER, Melbourne, FL

RICHARD A. KILLWORTH,  
Dayton, OH

HARRY D. KRAUSE,  
Champaign, IL

JUDITH L. KREEGER, Florida  
Circuit Court, Eleventh  
Judicial Circuit, Miami, FL

LEWIS S. KURLANTZICK,  
Hartford, CT

PETER B. KUTNER, Norman, OK

MICHELE LANGER,  
Philadelphia, PA

HERBERT I. LAZEROW,  
San Diego, CA

LILI LEVI, Coral Gables, FL

HOUSTON PUTNAM LOWRY,  
Meriden, CT

ROBERT E. LUTZ, II,  
Los Angeles, CA

W. CULLEN MACDONALD,  
New York, NY

PETER B. MAGGS, Urbana, IL

THOMAS O. MAIN,  
Sacramento, CA

JAMES R. MAXEINER,  
Baltimore, MD

JAMES C. MCKAY, JR.,  
Washington, DC

CAMPBELL ALAN MCLACHLAN,  
Wellington, New Zealand

PATRICK E. MEARS,  
Grand Rapids, MI

JULIET M. MORINGIELLO,  
Harrisburg, PA

RICHARD M. MOSK, California  
Court of Appeal,  
Los Angeles, CA

FRED F. MURRAY,  
Washington, DC

GARY MYERS, University, MS

MIRIAM MCINTIRE NISBET,  
Washington, DC

LINDA P. NUSSBAUM,  
New York, NY

JOHN B. OAKLEY, Davis, CA

MARGARET M. O'KEEFE,  
Portland, ME

GEORGE F. PAPPAS,  
Washington, DC

KATHLEEN PATCHEL,  
Indianapolis, IN

RAFAEL A. PORRATA-DORIA, JR.,  
Bala Cynwyd, PA

BERNARD D. REAMS, JR.,  
San Antonio, TX

WILLIAM L. REYNOLDS,  
Baltimore, MD

KENNETH F. RIPPLE, U.S. Court of  
Appeals, Seventh Circuit,  
South Bend, IN

JAMES K. ROBINSON,  
Washington, DC

STEPHEN RUBIN, McLean, VA

HARRY C. SIGMAN,  
Los Angeles, CA  
BRIAN F. SPECTOR, Miami, FL  
EDWARD B. STEAD, Dallas, TX  
ROBERT E. STEIN,  
Washington, DC  
ROLF STÜRNER,  
Freiburg, Germany  
WILLIAM SWADLING,  
Oxford, England  
ELLEN E. SWARD, Lawrence, KS  
STEPHEN LYLE TATUM,  
Fort Worth, TX  
LOUISE E. TEITZ, Bristol, RI  
JOHN M. TOWNSEND,  
Washington, DC

PETER D. TROBOFF,  
Washington, DC  
JAY M. VOGELSON, Dallas, TX  
MICHAEL P. WAXMAN,  
Milwaukee, WI  
LOUISE WEINBERG, Austin, TX  
JACK M. WEISS, New York, NY  
RALPH U. WHITTEN, Omaha, NE  
DAVID B. WILSON, Denver, CO  
GERARD E. WIMBERLY, JR.,  
New Orleans, LA  
PETER WINSHIP, Dallas, TX  
WILLIAM J. WOODWARD, JR.,  
Philadelphia, PA  
PATRICK WOOLLEY, Austin, TX  
ROBERT J. ZAPF, Los Angeles, CA

The bylaws of The American Law Institute provide that “Publication of any work as representing the Institute’s position requires authorization by the membership and approval by the Council.” Each portion of an Institute project is submitted initially for review to the project’s Consultants or Advisers as a Memorandum, Preliminary Draft, or Advisory Group Draft. As revised, it is then submitted to the Council of the Institute in the form of a Council Draft. After review by the Council, it is submitted as a Tentative Draft, Discussion Draft, or Proposed Final Draft for consideration by the membership at the Institute’s Annual Meeting. At each stage of the reviewing process, a Draft may be referred back for revision and resubmission. The status of this Draft is indicated on the front cover and title page.

Earlier versions of the material contained in this Draft can be found in:

Council Draft No. 2 (2006)

Discussion Draft (2006)

## Foreword

For ten years now, the Institute has sought an international audience for some of its work. We proposed principles for bankruptcy coordination among Canada, Mexico, and the United States. Transnational Civil Procedure then offered guidance toward procedural norms for commercial disputes that cross national borders. We have begun work on Principles of the Law of World Trade. And now we present for the Annual Meeting our completed effort to draft principles for resolving transnational intellectual property disputes. We hope and anticipate that these Principles can be relevant as legislatures and courts around the world adapt their procedures in response to the new universe of instantaneous transmission of such things as trade symbols, photos, music, movies, and software.

This pioneering project has been achieved by Reporters Rochelle Dreyfuss, Jane Ginsburg, and François Dessemontet. Assisted by experts from several continents, the Reporters propose doctrine concerning jurisdiction, choice of law, and judgments. These are the central topics that must be addressed if much of the world is to coordinate its attempt to balance the incentives supplied by the grant of intellectual property rights with the encouragement of creative expression and free speech.

In large part, this is Internet Law, as well as the adaptation of traditional legal concepts to the world of the Internet.

We appreciate immensely the pathbreaking work of the Reporters and the assistance they have obtained from their Advisers and from the ALI Members Consultative Group. At last year's Annual Meeting, participants helped

the project with their constructive comments and questions.  
I am confident that will again be true in San Francisco.

LANCE LIEBMAN  
*Director*  
*The American Law Institute*

March 19, 2007

## TABLE OF CONTENTS

<i>Section</i>	<i>Page</i>
Foreword .....	.xi
Reporters' Memorandum .....	.xix
Introduction .....	.1

### **INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES** [without Commentary]

#### Part I DEFINITIONS AND SCOPE OF THE PRINCIPLES

§ 101. Definitions .....	.9
§ 102. Scope and Applicability of the Principles .....	.10
§ 103. Distinction Between Jurisdiction and Applicable Law ..	.11

#### Part II JURISDICTION

##### Chapter One Personal Jurisdiction over the Defendant

§ 201. Defendant's Residence .....	.11
§ 202. Choice-of-Court Agreements .....	.12
§ 203. Appearance by a Defendant Not Resident in the Forum ..	.13
§ 204. Infringement Activity by a Defendant Not Resident in the Forum .....	.14
§ 205. Agreements Pertaining to Intellectual Property Rights ..	.15
§ 206. Personal Jurisdiction over Multiple Defendants .....	.15
§ 207. Insufficient Grounds for Jurisdiction over Transnational Disputes .....	.16

Chapter Two  
Jurisdiction over the Subject Matter

§ 211.	Subject-Matter Jurisdiction .....	17
§ 212.	Counterclaims, Supplemental Claims, and Defenses .....	17
§ 213.	Declaratory Judgments .....	18
§ 214.	Provisional and Protective Measures .....	19

Chapter Three:  
Jurisdiction over Simplification:  
Coordinating Multiterritorial Actions

§ 221.	Coordination Authority of the Court First Seized with an Action Involving the Party Seeking Coordination .....	19
§ 222.	Coordination Among Courts and Consolidation of Territorial Claims by the Court First Seized .....	21
§ 223.	Disposition of the Dispute by Other Court or Courts Seized with the Action .....	24

Part III  
APPLICABLE LAW

Chapter One  
In General

§ 301.	Territoriality .....	26
§ 302.	Agreements Pertaining to Choice of Law .....	26

Chapter Two  
Title to and Transfer of Rights

§ 311.	Initial Title to Registered Rights .....	28
§ 312.	Initial Title to Unregistered Trademark and Trade-Dress Rights .....	28
§ 313.	Initial Title to Other Rights That Do Not Arise out of Registration .....	29
§ 314.	Transferability .....	30
§ 315.	Transfers of Title and Grants of Licenses .....	30

<i>Section</i>	<i>Page</i>
§ 316. Transfers by Operation of Law (Involuntary Transfers) . . .	31
§ 317. Security Interests and Insolvency . . . . .	31

Chapter Three  
Residual Principles Regarding Choice of Law

§ 321. Law or Laws to Be Applied in Cases of Ubiquitous Infringement . . . . .	31
§ 322. Public Policy (ordre public) . . . . .	32
§ 323. Mandatory Rules . . . . .	32
§ 324. Exclusion of the Renvoi . . . . .	33

Part IV  
RECOGNITION AND ENFORCEMENT OF  
FOREIGN JUDGMENTS IN TRANSNATIONAL CASES

Chapter One  
In General

§ 401. Foreign Judgments to Be Recognized or Enforced . . . . .	33
§ 402. Default Judgments . . . . .	34
§ 403. Judgments Not to Be Recognized or Enforced . . . . .	34

Chapter Two  
Remedies

§ 411. Monetary Relief . . . . .	36
§ 412. Injunctions . . . . .	37
§ 413. Declarations of Validity, Invalidity, Infringement, and Ownership of Rights . . . . .	37

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

Part I  
DEFINITIONS AND SCOPE OF THE PRINCIPLES

Introductory Note .....	39
§ 101. Definitions .....	41
§ 102. Scope and Applicability of the Principles .....	49
§ 103. Distinction Between Jurisdiction and Applicable Law ..	63

Part II  
JURISDICTION

Chapter One  
Personal Jurisdiction over the Defendant

§ 201. Defendant's Residence .....	75
§ 202. Choice-of-Court Agreements .....	78
§ 203. Appearance by a Defendant Not Resident in the Forum .....	87
§ 204. Infringement Activity by a Defendant Not Resident in the Forum .....	92
§ 205. Agreements Pertaining to Intellectual Property Rights ...	109
§ 206. Personal Jurisdiction over Multiple Defendants .....	110
§ 207. Insufficient Grounds for Jurisdiction over Transnational Disputes .....	123

Chapter Two  
Jurisdiction over the Subject Matter

§ 211. Subject-Matter Jurisdiction .....	133
§ 212. Counterclaims, Supplemental Claims, and Defenses ...	137
§ 213. Declaratory Judgments .....	144
§ 214. Provisional and Protective Measures .....	150

Chapter Three  
Jurisdiction over Simplification:  
Coordinating Multiterritorial Actions

§ 221. Coordination Authority of the Court First Seized with an Action Involving the Party Seeking Coordination .....	155
§ 222. Coordination Among Courts and Consolidation of Territorial Claims by the Court First Seized .....	165
§ 223. Disposition of the Dispute by Other Court or Courts Seized with the Action .....	188

Part III  
APPLICABLE LAW

Introductory Note .....	193
-------------------------	-----

Chapter One  
In General

§ 301. Territoriality .....	201
§ 302. Agreements Pertaining to Choice of Law .....	211

Chapter Two  
Title to and Transfer of Rights

Introductory Note .....	217
§ 311. Initial Title to Registered Rights .....	217
§ 312. Initial Title to Unregistered Trademark and Trade-Dress Rights .....	220
§ 313. Initial Title to Other Rights That Do Not Arise out of Registration .....	224
§ 314. Transferability .....	234
§ 315. Transfers of Title and Grants of Licenses .....	236
§ 316. Transfers by Operation of Law (Involuntary Transfers) ..	240
§ 317. Security Interests and Insolvency .....	241

<i>Section</i>	<i>Page</i>
----------------	-------------

Chapter Three  
Residual Principles Regarding Choice of Law

§ 321. Law or Laws to Be Applied in Cases of Ubiquitous Infringement .....	.245
§ 322. Public Policy (ordre public) .....	.250
§ 323. Mandatory Rules .....	.254
§ 324. Exclusion of the Renvoi .....	.259

Part IV  
RECOGNITION AND ENFORCEMENT OF  
FOREIGN JUDGMENTS IN TRANSNATIONAL CASES

Introductory Note .....	.261
-------------------------	------

Chapter One  
In General

§ 401. Foreign Judgments to Be Recognized or Enforced . . . .	.265
§ 402. Default Judgments .....	.271
§ 403. Judgments Not to Be Recognized or Enforced .....	.272

Chapter Two  
Remedies

Introductory Note .....	.289
§ 411. Monetary Relief .....	.290
§ 412. Injunctions .....	.294
§ 413. Declarations of Validity, Invalidity, Infringement, and Ownership of Rights .....	.299
Glossary .....	.301

## **REPORTERS' MEMORANDUM**

To: Members of the American Law Institute  
From: Rochelle Dreyfuss, Jane Ginsburg, and François Dessemontet  
Date: March 5, 2007  
Re: Intellectual Property: Principles Governing Jurisdiction, Choice of Law and Judgments in Transnational Disputes

The Principles cover four topics: jurisdiction, coordination of actions, applicable law, and enforcement of judgments. Each has undergone substantial revision in the course of meetings with the ALI Council, our Advisers, and the Membership. Two introductory remarks from the last Membership Meeting continue to capture the Project's aspirations.

First, although these Principles are intended to be of general application to international intellectual property litigation, several of the provisions and many of the examples focus on the Internet. We believe this focus is appropriate, because the Internet has spawned many of the problems that inspired the development of this project. Without the Internet's pervasive and instantaneous dissemination of works of the mind, the need for harmonized principles of jurisdiction and choice of law, and for methods of streamlining multinational litigation, would likely seem far less urgent. Notwithstanding the Internet impetus for this project, we also believe that the Principles here proposed, particularly those concerning the coordination of litigation, should assist the efficient and fair resolution of any kind of transnational intellectual property dispute.

Second, we note that the Principles sometimes employ terminology that may not be familiar to American lawyers. We have endeavored to frame the Principles for a truly international audience, and hence we have applied some of the terminology more familiar to jurists from countries bound by the Brussels Regulation or party to the Lugano Convention. Nonetheless, on the whole the Principles aim to be easily comprehensible whatever the juridical orientation of their reader.

In addition, pursuant to the advice the Reporters received, the Principles propose rules for jurisdiction, choice of law, and recognition of judgments that are, on the whole, specific to transnational intellectual property litigation. The Principles do not endeavor to articulate a complete code of private international law. Thus, they leave to the forum's law such matters as standing, adequate notice, characterization, statutes of limitation, the method of proving foreign law, and appellate process.

The Principles cover the following matters:

**1. Part I, Scope.**

This section implements the suggestions made at the last Membership Meeting that the Reporters provide definitions of all relevant terms and specifically delineate the scope of the Principles.

**2. Part II, Jurisdiction.**

This Part is divided into three sections: (1) personal jurisdiction, (2) subject-matter jurisdiction, and (3) jurisdiction over simplification (coordination authority).

The main bases of personal jurisdiction that would support actions under the Principles include the defen-

dant's residence, contractual forum selection (with special safeguards for mass-market agreements), and jurisdiction based on the occurrence of an infringement in the territory. Subject-matter jurisdiction remains a matter of the forum's law. The Principles suggest, however, that the bases of personal and subject-matter jurisdiction should be sufficiently broad to cover claims arising in more than one territory. For the same reason, the Principles facilitate the joinder of parties and claims where sufficient contacts with the forum exist. Finally, the Principles elaborate a mechanism for coordinating multiterritorial actions, either by organizing the cooperation of national courts adjudicating separate parts of a related action, or, where feasible, consolidating the separate actions before a single court.

### **3. Part III, Applicable Law.**

Following extensive discussion with the Advisers and the Council and at last year's Membership Meeting, the Principles have adopted a primarily territorial approach to choice of law. In most instances, the law of the country for which rights have been registered (or for rights that do not arise out of registration, the country for which protection is sought), will govern matters of infringement and transfer of title to intellectual property rights. There are, however, some exceptions. One, consistent with the case law in several countries, subjects initial title to copyright and neighboring rights to the law of the work's source country. Another allows parties to choose the law that will apply to parts of their action (as with choice-of-forum agreements, the validity of mass-market choice-of-law agreements is subject to special safeguards). A final exception, in the case of "ubiquitous" in-

fringements, allows the court to select a law that will presumptively apply to the entire action, subject to the parties' proof that the law for particular jurisdictions would produce a different outcome.

**4. Part IV, Recognition and Enforcement of Judgments.**

This Part sets out the criteria for recognizing and enforcing foreign judgments in transnational intellectual property cases litigated under the Principles. It follows general principles of enforcement law, including those articulated in the recently approved ALI Foreign Judgments Project. However, it gives teeth to the Principles on jurisdiction and choice of law by making the rendering court's nonconformity a basis on which a foreign court may decline to recognize or enforce a judgment. In addition, this Part proposes rules that give enforcement courts some flexibility to adapt the remedy to local conditions.

# **INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES**

## **Introduction**

This is a set of Principles on jurisdiction, recognition of judgments, and applicable law in intellectual property cases, drafted in a manner that endeavors to balance civil-law and common-law approaches. The digital networked environment is increasingly making multiterritorial simultaneous communication of works of authorship, trade symbols, and other intellectual property a common phenomenon, and large-scale piracy ever easier to accomplish. In this environment, the practical importance of adjudicating multiterritorial claims in a single court should be readily apparent. Without a mechanism for consolidating global claims and recognizing foreign judgments, effective enforcement of intellectual property rights, and by the same token, effective defenses to those claims, may be illusory for all but the most wealthy litigants. The following illustrates the nature of the problem:

E-pod is an online music-delivery service located in Freedonia. Any computer-equipped member of the public with Internet access anywhere may purchase copies of sound recordings of musical compositions from the E-pod website. E-pod has not, however, obtained permissions from the authors, performers, or producers of the works it makes available. Moreover, the one-click checkout

system E-pod's website employs may infringe patents registered in various countries. Finally, E-pod has received a cease-and-desist letter from Apple Inc., which holds worldwide trademark rights in iPod for online music-delivery services.

The example demonstrates how technological developments have changed the nature of intellectual property litigation. First, digital media may produce ubiquitous infringements of intellectual property rights, and thereby create transnational cases that require courts to interpret foreign law or to adjudicate the effect of foreign activities. Second, the rights at issue may encompass the range of intellectual property regimes. While transnational copyright and trademark claims are by now well known, this example shows that patent infringements are no longer as territorially discrete as was once assumed. Third, the potential impact of the alleged infringements in every State in the world may make effective enforcement (or defense) elusive. There may be no single court with full adjudicatory authority over worldwide copyright, patent, and trademark claims. Even if there were, the choice-of-law issues may prove excessively complex (or, paradoxically, misleadingly simple, if a court entertaining all or part of a worldwide dispute yielded to the temptation to apply its own law to the entire case). In contrast, State-by-State adjudication may make the choice-of-court and choice-of-law issues appear easier to resolve, but multiple adjudication could produce uncertainty, inconsistency, delay, and expense. Moreover, multiple suits involving the same claims and incidents strain judicial dockets.

The Principles alleviate these problems in a variety of ways. They endeavor to enhance procedural and substantive

## Introduction

fairness. They endorse the long-familiar territorial approach to choice of law for most cases. As a result, those creating, using, and transacting in intellectual property can predict which laws will apply to their activities. As to jurisdiction, the Principles recommend bases of authority for transnational disputes that are appropriate for the creative community as a whole. They protect intellectual property users from being summoned to unexpected locations and allow producers to select a court capable of rendering a timely decision. Adoption of the Principles would give the courts and the parties assurance that judgments will be enforced and recognized in subsequent foreign litigation. The Principles also create a mechanism for making worldwide adjudication more efficient. They use *lis pendens* and *forum non conveniens* doctrines as organizational devices to coordinate litigation, either by facilitating cooperation among courts where related actions are pending or by aggregating worldwide claims into a single court, chosen (in most instances) by the court first seized, on the basis of the relationship between the chosen court, the parties, and the dispute. Furthermore, coordination brings the parties together and promotes settlement. For example, in Japan, the Wakai judicial settlement procedure creates a mechanism to judicially mediate settlement of multiterritorial patent claims. See Yukio Nagasawa, *Settlement Conferences at Japanese Courts*, *AIPPI Journal*, Jan. 2007, at 3. Cf., *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.*, 145 F.3d 481 (2d Cir. 1998) (retaining jurisdiction over 18 foreign copyright-infringement actions; the parties then settled all claims).

From the judicial standpoint, although entertaining claims under multiple laws may appear daunting, multilat-

eral treaties, such as the 1994 TRIPS Agreement, have muted differences in substantive patent, trademark, and copyright norms. Under the Berne Convention, copyrights arise simultaneously in all 163 member States. Furthermore, trademark and patent rights holders are increasingly relying on central prosecution of their applications through the Madrid Protocol, the Patent Cooperation Treaty, and the European Patent Convention. These parallel rights will often present the courts with substantially the same issues in each State of registration.

This Project is of a piece with other international developments. With the adoption by the World Trade Organization of the TRIPS Agreement, international approaches to various aspects of intellectual property law, including piracy and famous marks, are converging. By the same token, negotiations continue on harmonizing elements of patent law in order to facilitate consolidated worldwide patent examination. Regional agreements on aspects of intellectual property protection abound. The private sector is also finding its own global solutions through mergers among intellectual property holders, the creation of patent pools and standard-setting organizations, and resort to arbitration as well as choice-of-law and choice-of-court clauses. The emergence of multijurisdictional law firms greatly facilitates client representation in this new era.

Other projects at the American Law Institute evince similar interests in developing modes of international cooperation in dispute settlement. The Transnational Insolvency Project reflects the need to preserve the value of assets located in NAFTA members with a mechanism for managing multinational bankruptcy cases; the ALI/UNIDROIT

## Introduction

Principles of Transnational Civil Procedure foster harmonization of the rules for resolving multinational commercial disputes; and the recently adopted ALI Project on the Recognition and Enforcement of Foreign Judgments: Analysis and Proposed Federal Statute proposes, as its name suggests, a new law for enforcing foreign judgments in the United States. See generally, Conrad K. Harper, Foreign and International Law in the American Law Institute, *The ALI Reporter* (Fall, 2001).

Congruent developments are occurring abroad. The International Law Association Committee on Civil and Commercial Litigation issued two reports on methods of streamlining parallel litigation, one on Provisional and Protective Measures in International Litigation (1996) and the other on Declining and Referring Jurisdiction in International Litigation (2000). For over a decade, the Hague Conference on Private International Law worked on problems of jurisdiction and recognition of judgments in multinational cases. In 1999, this work yielded a Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters (hereinafter Hague Judgments Draft), available at the website of the Hague Conference on Private International Law, <http://www.hcch.nl>. For commentary on this proposal, see Peter Nygh & Fausto Pocar, Report of the Special Commission on Jurisdiction and Foreign Judgments in Civil and Commercial Matters (Aug. 2000), available at <http://www.hcch.net/upload/wop/jdgmppd11.pdf>. When this Draft failed to attract broad support, the Conference shifted course, producing an agreement limited to adjudications based on choice-of-court agreements in business-to-business contracts; see Hague Convention on Choice of Court Agreements, June 30, 2005, 44 I.L.M. 1294,

available at [http://www.hcch.net/index\\_en.php?act=conventions.text&cid=98](http://www.hcch.net/index_en.php?act=conventions.text&cid=98) (hereinafter Hague Convention on Choice of Court Agreements).

Within the intellectual property community, the International Association for the Protection of Intellectual Property (AIPPI) has recognized the need for a fairer and more efficient method of resolving so-called “cross-border” cases, and has adopted a Resolution proposing approaches to jurisdiction, choice of law, and enforcement of judgments that are generally consistent with these Principles. See AIPPI, Resolution, Question Q174—Jurisdiction and Applicable Law in the Case of Cross-border Infringement of Intellectual Property Rights (Oct. 25-28, 2003), available at [http://www.aippi.org/reports/resolutions/Q174\\_E.pdf](http://www.aippi.org/reports/resolutions/Q174_E.pdf) (hereinafter AIPPI, Q174 Resolution). The Max Planck Institutes for Intellectual Property (Munich) and for Private International Law (Hamburg) are also working on an International Convention on Jurisdiction and Enforcement of Judgments, which deals with many of the same issues that are raised here. For more on the background of the project, see Rochelle C. Dreyfuss and Jane C. Ginsburg, Draft Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters, 77 *Chi-Kent L. Rev.* 1065 (2002).

This internationalist perspective informs the Principles. They occasionally depart from standard expressions found in U.S. law because they are addressed to an audience that includes lawyers and lawmakers from different analytical traditions who are accustomed to different nomenclature and categories.

## Introduction

The internationalist perspective also requires the Principles to envision a future in which coordination among courts evolves from the exceptional to the expected. This forward focus distinguishes the Principles from some current positive law. For example, two recent decisions of the European Court of Justice interpret the Brussels Convention (now Regulation) to prohibit the aggregation of parties or the consolidation of multiple patent claims. See Case C-593/03, *Roche Nederland BV v. Primus*, [2007] F.S.R. 5; Case C-4/03, *Gesellschaft für Antriebstechnik mbH & Co KG v Lamellen und Kupplungsbau Beteiligungs KG*, [2006] F.S.R. 45. Further, the U.S. Federal Circuit has also refused to permit consolidation of multiple patent infringement claims. See *Voda v. Cordis Corp.*, \_\_\_ F.3d \_\_\_ (Fed. Cir. 2007). Similarly, the Hague Convention on Choice of Court Agreements excludes all disputes involving the validity of registered intellectual property rights. Other developments now in discussion in the European Union may also perpetuate an atomized approach to international intellectual property litigation: the current draft of the proposed Regulation of the European Parliament and the Council on the Law Applicable to Non-Contractual Obligations (Rome II), COM (2006) 83 final (Feb. 21, 2006), available at [http://ec.europa.eu/justice\\_home/doc\\_centre/civil/doc/com\\_2006\\_83\\_en.pdf](http://ec.europa.eu/justice_home/doc_centre/civil/doc/com_2006_83_en.pdf) (hereinafter *Amended Rome II Proposal*) would prohibit the parties from choosing the law applicable to an infringement action involving noncontractual obligations; see *id.* arts. 8, 10.

The incessant pan-national evolution of commerce and communications nonetheless calls into question the present realities on which those outcomes repose. Indeed, their territorialist impulse is already in tension with the WTO com-

mitment to a globalized marketplace in which intellectual goods move freely. The objectives of international trade may be achieved both through harmonizing substantive intellectual property law and by facilitating international adjudication. The latter complements the former. The free movement of goods propels the free movement of disputes and judgments: emerging conditions call for a mechanism for effective international coordination and recognition of judgments. The Principles address the related components of an action, from choice of court to choice of law through to enforcement of judgments. By ensuring that neither the exercise of judicial power nor the designation of applicable law is exorbitant, the Principles endeavor to eliminate the problems underlying the current skepticism regarding discrete proposals to simplify multinational litigation.

This is not to suggest that the Principles, if adopted at all, must be implemented in their entirety; national authorities may in fact find the approach of particular sections, such as the provisions on personal jurisdiction and/or choice of law, distinctly conducive to local realization, yet hesitate today to embrace every recommendation. While their overarching conceptualization distinguishes the Principles from earlier attempts to respond to new needs for international intellectual property adjudication, even piecemeal implementation can contribute importantly toward efficient and effective international dispute resolution. In addition, the Comments and Reporters' Notes may further research and scholarly commentary in countries in which the study of private international law and intellectual property may be less developed than in Europe and the United States.

**INTELLECTUAL PROPERTY:  
PRINCIPLES GOVERNING  
JURISDICTION, CHOICE OF LAW,  
AND JUDGMENTS IN  
TRANSNATIONAL DISPUTES**  
[without Commentary]

**Part I**  
**DEFINITIONS AND SCOPE OF THE  
PRINCIPLES**

**§ 101. Definitions**

The following definitions apply to these Principles:

(1) “Judgment” means any final judgment or final order of a court determining a legal controversy; a judgment or order is “final” for the purposes of these Principles when it is subject to enforcement in the State of origin, even if it is also subject to appeal or an appeal is pending.

(2) “Agreement” means a bargain of two or more parties that results in legal obligations. The term includes agreements, contracts, licenses, assignments, pledges, grants, and other voluntary transfers, regardless of how the particular transaction or transfer is denominated.

(3) “Mass-market agreement” means an agreement that:

(a) is prepared by one party for repeated use;

(b) is presented to another party or parties (the “nondrafting party”) by the party on behalf of whom the draft has been prepared (the “drafting party”); and

(c) does not afford the nondrafting party a meaningful opportunity to negotiate its terms.

(4) “Registered right” means any intellectual property right covered by § 102(1) that is not valid unless and until granted by a competent State authority.

(5) “State” means an entity with a defined territory and a permanent population, under the control of its own government, that engages in, or has the capacity to engage in, foreign relations with other such entities. The allocation of authority between a State and its territorial subdivisions is determined under the law of that State.

(6) “Transnational civil dispute” means a civil action in a court of a State (the “forum State”) in which:

(a) there is a claim or defense under the intellectual property rights of another State (the “non-forum State”); or

(b) there is a claim arising out of activities that implicate intellectual property rights where the activities occur, at least in part, outside the forum State.

## **§ 102. Scope and Applicability of the Principles**

(1) These Principles apply to transnational civil disputes that involve copyrights, neighboring rights, patents, trade secrets, trademarks, related intellectual property rights, and agreements related to any of these rights.

(2) A court should, upon a party's timely request or upon its own motion, make a specific finding as to whether a dispute before it comes within the Principles.

**§ 103. Distinction Between Jurisdiction and Applicable Law**

(1) Competence to adjudicate does not imply application of the forum State's substantive law.

(2) A court should not dismiss or suspend proceedings merely because the dispute raises questions of foreign law.

**Part II**

**JURISDICTION**

**Chapter One**

**Personal Jurisdiction over the Defendant**

**§ 201. Defendant's Residence**

(1) A person may be sued in any State in which the person resides.

(2) A natural person is resident in the State in which he or she is habitually found and maintains significant professional or personal connections.

(3) A juridical person is resident in any State or States in which:

- (a) it has a statutory seat;
- (b) it is incorporated or formed;
- (c) its central administration or chief executive office is located; or

(d) it maintains its principal place of business.

## **§ 202. Choice-of-Court Agreements**

(1) Subject to subsections (2) and (3), a person may be sued in any court that the parties have agreed will have jurisdiction with respect to the dispute in question, and, unless the parties' agreement clearly provides otherwise,

(a) the designated court will have exclusive jurisdiction with respect to that dispute, and

(b) the parties will be deemed to have waived objections to the designated court's personal jurisdiction over them.

(2) (a) Except as provided in subsection (3), a choice-of-court agreement is valid as to form and substance if it is valid under the law of the designated forum State.

(b) Capacity of the defendant to enter into the agreement is determined by the law of the State in which the defendant was resident at the time the agreement was concluded; if the defendant has more than one residence, capacity will be recognized if it exists under the law of any one of its residences.

(3) (a) A choice-of-court clause in a mass-market agreement is valid only if the choice-of-law clause was reasonable and readily accessible to the nondrafting party at the time the agreement was concluded, and is available for subsequent reference by the court and the parties.

(b) Reasonableness under subparagraph (a) is determined in light of:

(i) the parties' locations, interests, and resources, taking particular account of the resources and sophistication of the nondrafting party;

(ii) the interests of any States connected to the dispute or to the parties;

(iii) the availability of remote adjudication in the designated court, such as online dispute resolution; and

(iv) whether the designated court was established in the forum State to foster expertise in adjudicating disputes of this type.

(4) If the choice-of-court clause is not valid under this Section, then jurisdiction is determined according to the other provisions of Part II of the Principles.

**§ 203. Appearance by a Defendant Not Resident in the Forum**

(1) A defendant submits to the authority of a court in which it proceeds on the merits without timely contesting jurisdiction.

(2) The defendant has the right to contest jurisdiction no later than the time of the first defense on the merits.

(3) If the defendant does not appear, the court should satisfy itself that the plaintiff's assertions of the basis of jurisdiction are reasonably supported. If they are, the court may enter judgment; the enforceability of the judgment in other States will be subject to scrutiny under § 402.

**§ 204. Infringement Activity by a Defendant Not Resident in the Forum**

(1) A person may be sued in any State in which that person has substantially acted, or taken substantial preparatory acts, to initiate or to further an alleged infringement. The court's jurisdiction extends to claims respecting all injuries arising out of the conduct within the State that initiates or furthers the alleged infringement, wherever the injuries occur.

(2) A person may be sued in any State in which its activities give rise to an infringement claim, if it reasonably can be seen as having directed those activities to that State. The court's jurisdiction extends to claims respecting injuries occurring in that State.

(3) A person who cannot be sued in a WTO-member State through the application of §§ 201-204(1) may be sued in any State in which its activities give rise to an infringement claim if:

(a) it reasonably can be seen as having directed those activities to that State, and

(b) it solicits or maintains contacts, business, or an audience in that State on a regular basis, whether or not such activity initiates or furthers the infringing activity.

The court's jurisdiction extends to claims respecting injuries arising out of conduct outside the State that relates to the alleged infringement in the State, wherever the injuries occur.

**§ 205. Agreements Pertaining to Intellectual Property Rights**

A person may be sued in a State with respect to any claim alleging the breach of an agreement transferring or licensing intellectual property rights for exploitation in that State. When this section affords the sole basis of jurisdiction, the defendant may be sued only with respect to those intellectual property rights provided by that State and related to the agreement.

**§ 206. Personal Jurisdiction over Multiple Defendants**

(1) A plaintiff bringing an action against a person in a State in which that person is resident may also proceed in that State against one or more nonresident defendants if the claims against the resident defendant and such other defendants are so closely connected that they should be adjudicated together to avoid a risk of inconsistent judgments, and if:

(a) there is a substantial, direct, and foreseeable connection between the forum's intellectual property rights at issue and each nonresident defendant; or

(b) as between the forum and the States in which the added defendants are resident, there is no forum that is more closely related to the entire dispute.

(2) There is a risk of inconsistent judgments if it appears that the ensuing judgments:

(a) would impose redundant liability;

(b) would conflict in that the judgment in one case would undermine the judgment in another case; or

(c) would conflict in that a party would not be able to conform its behavior to both judgments.

(3) Subsection (1) does not apply to a codefendant invoking an exclusive choice-of-court agreement with the plaintiff that conforms with § 202.

(4) If an action is brought in a State on the basis of this section, then that court has jurisdiction with respect to injuries, wherever occurring, that arise out of the activities that allegedly create the risk of inconsistent judgments.

#### **§ 207. Insufficient Grounds for Jurisdiction over Transnational Disputes**

Jurisdiction to adjudicate a transnational dispute under these Principles is insufficient when exercised solely on the basis of any one of the following grounds:

(1) the presence in that State of tangible property belonging to the defendant, except when the dispute is directly related to that property;

(2) the existence of defendant's intellectual property rights under the law of that State, except when the dispute is directly related to that intellectual property;

(3) the nationality of the plaintiff;

(4) the nationality of the defendant;

(5) the presence of the plaintiff in that State;

(6) the conduct of commercial or other activities by the defendant in that State, except when the dispute is related to those activities;

(7) service of a writ upon the defendant in that State; or

(8) completion in that State of the formalities necessary to execute the agreement to which the dispute pertains.

## **Chapter Two**

### **Jurisdiction over the Subject Matter**

#### **§ 211. Subject-Matter Jurisdiction**

(1) Except as provided in subsection (2), a court is competent to adjudicate claims and defenses arising under foreign laws pertaining to copyrights, neighboring rights, patents, trade secrets, trademarks, related intellectual property rights, and contracts that are related to any of these rights.

(2) The adjudication of the validity of registered rights granted under the laws of another State is effective only to resolve the dispute among the parties to the action.

(3) A court may permit intervention by a person having an interest substantially connected to the subject matter of the proceeding if the court finds that the intervention will not cause undue confusion or delay, or otherwise unfairly prejudice a party.

#### **§ 212. Counterclaims, Supplemental Claims, and Defenses**

(1) A court may determine all claims and defenses among the parties arising out of the transaction, occurrence, or series of transactions or occurrences on which the original claim is based, regardless of the territorial source of the rights at issue or of the party that asserts them. However, with respect to each asserted claim, the court must have

subject-matter jurisdiction under its local law and personal jurisdiction under §§ 201-207.

(2) A court may decline to exercise jurisdiction over a supplemental claim unrelated to intellectual property rights when the claim substantially predominates over the claims properly within the scope of these Principles.

(3) A court should not decline to exercise jurisdiction over supplemental claims for the sole reason that the claims are based on foreign law.

(4) A court has authority to consider defenses related to the invalidity of registered rights. In an action in which a court in one State has determined that the registration of a right in another State is invalid, the effect of the judgment is limited to the parties to that action.

### **§ 213. Declaratory Judgments**

(1) An action for a declaratory judgment other than one to declare a registered right invalid may be brought on the same terms as an action seeking substantive relief.

(2) Except as provided in subsection (3), a proceeding brought to obtain a declaration of the invalidity of a registered right may be brought only in the State of registration.

(3) An action to declare the invalidity of the registration of rights arising in multiple States may be brought in the State or States in which the defendant is resident, but the effect of the judgment on rights registered in States other than the forum will be limited to the parties to the action.

(4) A court exercising jurisdiction under this Section may not exercise coordination authority under § 221.

**§ 214. Provisional and Protective Measures**

(1) A court has jurisdiction to order any provisional or protective measures consistent with its authority under §§ 201-207 and §§ 221-223 of these Principles.

(2) The courts in any States in which intellectual property is registered or in which tangible property is located have jurisdiction to order any provisional or protective measures with respect to that property. The measure must be limited to the territory of that State.

(3) A person having custody or control of goods in transit, even if not an infringer by the law of the State in which the goods are temporarily located, may be the subject of an action for an order of temporary detention of the goods while the true owner or owners are identified and joined to the proceedings.

**Chapter Three****Jurisdiction over Simplification: Coordinating  
Multiterritorial Actions****§ 221. Coordination Authority of the Court First Seized  
with an Action Involving the Party Seeking Co-  
ordination**

(1) Any party engaged in actions involving the same transaction, occurrence, or series of transactions or occurrences in the courts in different States may move to have the actions coordinated through cooperation or consolidation under these Principles. The motion must be timely submitted and specify the actions to be coordinated.

(a) If the parties in all the actions are the same, the motion should be made in the court first seized.

(b) If the parties in all the actions are not the same, the motion should be made in the court first seized with an action involving the moving party.

(c) Where permitted by local law, the court first seized may consider coordination on its own motion, affording the parties an opportunity to be heard in the matter.

(2) If the court designated by subsection (1) finds that some or all of the claims in the specified actions in other courts arise out of the same transaction, occurrence, or series of transactions or occurrences as the claims before the court, the court should assert coordination authority over those actions and decide, in accordance with § 222, whether the actions will proceed through cooperation or consolidation or a combination of the two.

(3) Any other court before which an action is pending that contains claims that the designated court has deemed to fall within its coordination authority should follow the procedures set out in § 223.

(4) A court is “seized”:

(a) when the document instituting the action, or an equivalent document, is filed with the court, provided that the plaintiff subsequently takes the required steps to provide notice to the defendant; or

(b) if the document has to be served before being filed with the court, when it is served or received by the authority responsible for service, whichever is earlier,

provided that the plaintiff subsequently files the document with the court.

(5) A court seized with a coercive action seeking substantive relief is “first seized” when:

(a) the subject matter of the action is not within another tribunal’s exclusive jurisdiction under § 202; and

(b) no other court had previously been seized with a coercive action seeking substantive relief; and

(c) in the case of actions between different parties, no other court has a pending motion to coordinate actions under subsection (1).

(6) If the court in which a motion to coordinate is pending fails within a reasonable time to take the necessary steps to act on the motion, or if the court before which actions have been consolidated cannot be expected to render a decision within a reasonable time, then the nondesignated court or courts may proceed to adjudicate.

**§ 222. Coordination Among Courts and Consolidation of Territorial Claims by the Court First Seized**

(1) If the court designated by § 221 decides that related actions will be coordinated, it then determines whether coordination should proceed through cooperation, consolidation, or a combination of the two. Considerations bearing on this matter include:

(a) the convenience and efficiency of centralized adjudication versus the convenience and efficiency of cooperation;

(b) the cost of pursuing related actions in multiple courts;

(c) the need for specific expertise in light of the complexity, familiarity, and novelty of the legal issues;

(d) the time required to resolve all the claims;

(e) the relative resources of the parties;

(f) whether there is a court with adjudicatory authority over all the parties under §§ 201-207;

(g) whether adjudication by multiple courts could result in inconsistent judgments; and

(h) whether the judgment resulting from consolidated proceedings will be enforceable in other States.

(2) If the court determines that coordination of all or part of the dispute is appropriate, it should invite the parties to identify other related pending actions between any of the parties to the dispute and other litigants that the court should, in order to promote efficiency, consider for inclusion in the coordination plan.

(3) If the court determines that cooperative resolution of all or part of the dispute is appropriate, the court should so inform all courts involved in the coordination, and order the parties to draw up a plan for resolving the dispute in a just and expeditious manner.

(4) If the court determines that consolidation of all or part of the dispute is appropriate, the court must next decide, in a timely manner, whether to retain jurisdiction over the consolidated action, or instead to suspend proceed-

ings in favor of another court. Considerations bearing on this matter include:

(a) which State has the closest connection to the dispute; in deciding this the court should take into account:

(i) any enforceable choice-of-court clauses in contracts relevant to the dispute between or among any of the parties;

(ii) the States in which the parties reside;

(iii) the relative resources of the parties;

(iv) which States' intellectual property rights are in issue; and

(v) the State whose law governs initial title to the intellectual property rights or other rights in issue under §§ 311-313;

(b) which court has authority to adjudicate the fullest scope of the consolidated action, taking into account the court's authority over the subject matter and the parties;

(c) the difficulty of managing the litigation, including the complexity, familiarity, and novelty of the legal issues, and, particularly in patent cases, the expertise of each potential consolidation court;

(d) the availability of process to summon and examine witnesses and obtain nontestimonial evidence, and the location of the evidence and of witnesses;

(e) each potential consolidation court's power to award an adequate remedy; and

(f) the availability of judicial process consistent with international norms.

(5) The issues of cooperation and consolidation should be decided in a timely manner.

(6) A party seeking to appeal a decision on coordination or consolidation must do so at the first opportunity provided by the jurisdiction of the court that made the decision. Failure to do so constitutes a waiver of the right to appeal the decision.

**§ 223. Disposition of the Dispute by Other Court or Courts Seized with the Action**

(1) When the court designated by § 221 asserts coordination authority, courts in which related actions are pending should suspend proceedings awaiting:

(a) a determination by the designated court that the suit falls within the Principles; and

(b) that court's decision, in accord with § 222, whether there should be coordination, and, if so, whether the method of adjudication should be by cooperation among the courts seized, or by consolidation of the entire dispute before one court.

(2) If the designated court determines that the dispute should be adjudicated cooperatively, courts in which related actions are pending should consult with the parties, the court first seized, and other courts in which related actions are pending, to determine the scope of each court's authority and the timing of each court's proceedings.

(3) If the designated court consolidates the dispute and chooses the court in which the consolidated action will be adjudicated, courts other than the consolidation court should suspend proceedings in any action within the consolidation. If any court suspends its proceedings under this Subsection, it may order the litigants to provide security sufficient to satisfy any final decision on the merits.

(4) When a court has suspended its proceedings under subsection (3), it may resume proceedings if:

(a) the consolidation court declines to exercise jurisdiction or determines that the actions are not subject to coordination;

(b) the plaintiff in the suspended action fails to proceed in the consolidation court within a reasonable time; or

(c) the consolidation court fails to proceed within a reasonable time.

(5) Another court seized with the action should dismiss the suspended case when presented with a final judgment rendered by the consolidation court that decides the claims on the merits in compliance with the requirements for recognition or enforcement under Part IV of these Principles.

(6) The judgment rendered through coordinated adjudication does not foreclose proceeding with claims that were not made subject to coordination.

**Part III**  
**APPLICABLE LAW**  
**Chapter One**  
**In General**

**§ 301. Territoriality**

(1) Except as provided in §§ 302 and 321-323, the law applicable to determine the existence, validity, duration, attributes, and infringement of intellectual property rights and the remedies for their infringement is:

(a) for registered rights, the law of each State of registration.

(b) for other intellectual property rights, the law of each State for which protection is sought.

(2) The law applicable to a noncontractual obligation arising out of an act of unfair competition is the law of each State in which direct and substantial damage results or is likely to result, irrespective of the State or States in which the act giving rise to the damage occurred.

**§ 302. Agreements Pertaining to Choice of Law**

(1) Subject to the other provisions of this Section, the parties may agree at any time, including after a dispute arises, to designate a law that will govern all or part of their dispute.

(2) The parties may not choose the law that will govern the following issues:

- (a) the validity and maintenance of registered rights;
  - (b) the existence, attributes, transferability, and duration of rights, whether or not registered; and
  - (c) formal requirements for recordation of assignments and licenses.
- (3) Any choice-of-law agreement under subsection (1) may not adversely affect the rights of third parties.
- (4) (a) Except as provided in subsection (5), a choice-of-law agreement is valid as to form and substance if it is valid under the law of the designated forum State.
- (b) Capacity of the defendant to enter into the agreement is determined by the law of the State in which the defendant was resident at the time the agreement was concluded; if the defendant has more than one residence, capacity will be recognized if it exists under the law of any one of its residences.
- (5) (a) In addition, choice-of-law clauses in mass-market agreements are valid only if the choice-of-law clause was reasonable and readily accessible to the nondrafting party at the time the agreement was concluded, and is available for subsequent reference by the court and the parties.
- (b) Reasonableness under subsection (a) is determined in light of:
- (i) the closeness of the connection between the parties, the substance of the agreement, the State whose law is chosen, and the forum, and

(ii) the parties' locations, interests, and resources, taking particular account of the resources and sophistication of the nondrafting party.

(6) If the choice-of-law clause is not valid under this Section, then it should be disregarded and the applicable law should be determined according to the other provisions of Part III.

## **Chapter Two**

### **Title to and Transfer of Rights**

#### **§ 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.

#### **§ 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.

**§ 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 a creator's residence 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 issues 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

(d) If the subject matter created pursuant to a mass-market agreement containing a choice-of-law provision, the law designated in the contract, but only if the provision is valid under § 302(5).

(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 State in which the right is first exploited and recognized.

**§ 314. Transferability**

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

(2) The transferee must comply with any intellectual property recordation requirements of each State for which rights are transferred.

**§ 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 of, 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 of transfer or license governs. The contract or license 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 or license.

(3) (a) In mass-market 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 Section 302(5), then it should be disregarded and the applicable law should be determined according to subsection (2).

**§ 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.

**§ 317. Security Interests and Insolvency**

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

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

## **Chapter Three**

### **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 must take into account such differences in fashioning the remedy.

### **§ 322. Public Policy (ordre public)**

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

### **§ 323. Mandatory Rules**

The court may give effect to the mandatory rules of any State with which the dispute has a close connection if, under that State's law, the rules must apply regardless of the law that is otherwise applicable.

**§ 324. Exclusion of the Renvoi**

The law of any State declared applicable under Part III of these Principles does not include its choice-of-law rules.

**Part IV**

**RECOGNITION AND ENFORCEMENT  
OF FOREIGN JUDGMENTS  
IN TRANSNATIONAL CASES**

**Chapter One**

**In General**

**§ 401. Foreign Judgments to Be Recognized or Enforced**

(1) A court in which recognition or enforcement of a foreign judgment is sought should first ascertain whether the rendering court applied these Principles to the case.

(a) If the rendering court applied the Principles, then the enforcement court should recognize or enforce the judgment pursuant to these Principles.

(b) If the rendering court did not apply the Principles, then the enforcement court should determine whether to recognize or enforce the judgment pursuant to its domestic rules on recognition and enforcement of foreign judgments.

(2) In order to be enforceable, a foreign judgment must be enforceable in the rendering State. Recognition or enforcement should be stayed if the judgment is the subject of review in the rendering State or if the time limit for seeking review in that State has not expired.

(3) The preclusive effect given a foreign judgment should be no greater than the preclusive effect of the judgment in the rendering State.

(4) For purposes of this Part IV of the Principles, a provisional or protective order rendered in accord with § 214(1) should be considered a judgment entitled to enforcement.

#### **§ 402. Default Judgments**

(1) The enforcement court may not enforce a default judgment from a foreign court unless it determines that the rendering court's assertion of personal jurisdiction was consistent with the law of the rendering State.

(2) The enforcement court need not enforce a default judgment from a foreign court if it determines that the rendering court's assertion of personal jurisdiction was inconsistent with these Principles.

(3) In making any determination listed in subsections (1) and (2), the enforcement court should defer to the facts found by the rendering court.

#### **§ 403. Judgments Not to Be Recognized or Enforced**

(1) The enforcement court must not recognize or enforce a judgment if it determines that:

(a) the judgment was rendered under a system that does not provide impartial tribunals or procedures compatible with fundamental principles of fairness;

(b) the judgment was rendered in circumstances that raise substantial and justifiable doubt about the

integrity of the rendering court with respect to the judgment in question;

(c) the judgment was rendered without notice reasonably calculated to inform the defendant of the pendency of the proceeding in a timely manner;

(d) the judgment was obtained by fraud that had the effect of depriving the defendant of adequate opportunity to present its case to the rendering court;

(e) recognition or enforcement would be repugnant to the public policy in the State in which enforcement is sought;

(f) the rendering court exercised jurisdiction on the basis of a court-selection clause inconsistent with the safeguards set out in § 202(3); or

(g) the rendering court exercised jurisdiction on a basis of jurisdiction insufficient under § 207.

(2) The enforcement court need not recognize or enforce a judgment if it determines that:

(a) the rendering court exercised jurisdiction on a basis inconsistent with the norms of §§ 201-206;

(b) the rendering court chose a law inconsistent with the norms of §§ 301-324;

(c) proceedings between the same parties and having the same subject matter are pending before the court designated by § 221 or before a court cooperating in the adjudication or chosen for consolidation under § 222; or

(d) the judgment is inconsistent with the judgment of the court designated by § 221, or the actions were

coordinated in accordance with § 222 and the judgment is inconsistent with the judgment of the court of consolidation or of the courts that cooperated in resolving the dispute.

(3) In making any determination listed in subsections (1) and (2), the enforcement court should defer to the facts found by the rendering court.

## **Chapter Two**

### **Remedies**

#### **§ 411. Monetary Relief**

If a foreign judgment is recognized by the enforcement court under these Principles:

(1) The rendering court's order awarding compensatory damages, including attorney's fees, costs, accounting for profits, and damages intended to compensate the plaintiff without requiring proof of actual damages, should be enforced; and

(2) The rendering court's order awarding noncompensatory damages, including exemplary or punitive damages, should be enforced at least to the extent that similar or comparable damages could have been awarded in the State of the enforcement court. The enforcement court should take into account whether and to what extent the damages awarded by the rendering court are not punitive but serve to cover costs and expenses relating to the proceedings not otherwise covered by provisions relating to the award of attorney's fees.

**§ 412. Injunctions**

(1) (a) Except as provided in subsection (1)(b), if a foreign judgment is recognized by the enforcement court under these Principles, the rendering court's order awarding an injunction as a remedy for intellectual property infringement must be enforced in accord with the procedures available to the enforcement court.

(b) If injunctive relief would not have been available for the enforcement court's territory had the enforcement court been the rendering court and reached the same decision on the merits, the enforcement court may decline to enjoin or to order the commission of acts within the territory that impact exclusively within the territory. If the court so limits the scope of the injunction, it must award monetary relief in lieu of the injunction.

(2) The enforcement court may order such other relief as provided in the judgment, including seizure and destruction of infringing articles and the means of their manufacture or reproduction and the publication of the judgment.

**§ 413. Declarations of Validity, Invalidity, Infringement, and Ownership of Rights**

(1) Except as provided in subsection (2), declarations by a foreign court of validity, invalidity, infringement, or ownership of intellectual property rights must be recognized and enforced by the enforcement court.

(2) If a court in one State declares that a right registered in another State is invalid, the declaration is enforceable only between or among the parties to the litigation.



**INTELLECTUAL PROPERTY:  
PRINCIPLES GOVERNING  
JURISDICTION, CHOICE OF LAW,  
AND JUDGMENTS IN  
TRANSNATIONAL DISPUTES**

[with Comments and Reporters' Notes]

**Part I**

**DEFINITIONS AND SCOPE  
OF THE PRINCIPLES**

**Introductory Note:**

These Principles are designed for transnational disputes involving intellectual property rights. There are several reasons to believe that this is an area particularly ripe for the development of international litigation practices. The mismatch between the international scope of demand for creative products and the local scope of application of prescriptive authority over intellectual property has been a longstanding problem. In the 19th century, a series of important agreements, such as the Berne Convention (on copyrights) and the Paris Convention (on trademarks and patents) emerged to deal with the problems of *acquiring* and *recognizing* intellectual property rights. See Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 123 L.N.T.S. 233, revised July 24, 1971, 25 U.S.T. 1341, 1161 U.N.T.S. 3, available at [http://www.wipo.int/treaties/en/ip/berne/trtdocs\\_wo001.html](http://www.wipo.int/treaties/en/ip/berne/trtdocs_wo001.html) (hereinafter Berne Convention); Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, as revised at Stockholm July 14, 1967 (amended 1979) 21 U.S.T. 1583, 828 U.N.T.S.

305, available at [http://www.wipo.int/treaties/en/ip/paris/pdf/trtdocs\\_wo020.pdf](http://www.wipo.int/treaties/en/ip/paris/pdf/trtdocs_wo020.pdf) (hereinafter Paris Convention). Difficulties in *enforcing* these rights, and in *defending* against enforcement actions, are, in some ways, of more recent origin in that they stem largely from contemporary technological developments (such as translation software and digitized methods of distribution), cultural transformations (such as convergence on English as a lingua franca and growing local taste for foreign creative products), as well as changes in the way that business is conducted (such as the growth of transnational media). The decision of the World Trade Organization (WTO) to include copyright, patent, trademark, and related rights into its framework agreements demonstrates the importance now attached to the enforcement of intellectual property rights. As a result of the intellectual property community's familiarity with the earlier conventions and the WTO's more recent TRIPS Agreement, there is a common understanding of core intellectual property values and their enforcement. See Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1995, Marrakech Agreement establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299, available at [http://www.wto.org/english/tratop\\_e/trips\\_e/t\\_agm0\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/t_agm0_e.htm) (hereinafter TRIPS Agreement). These shared norms provide a foundation for successfully utilizing a system such as the one proposed here.

The Principles concern private-international-law matters that are specific to intellectual property and to the coordination of transnational intellectual property disputes. The Principles do not reiterate general rules on judicial or legislative competence, nor do they directly address general concerns regarding fair process. Thus, they leave to the forum general issues of private international and procedural law, such as those concerning standing, characterization,

the method of proving foreign law, and appellate process. With respect to norms not specific to intellectual property, see generally ALI/UNIDROIT, Principles of Transnational Civil Procedure.

### § 101. Definitions

**The following definitions apply to these Principles:**

**(1) “Judgment” means any final judgment or final order of a court determining a legal controversy; a judgment or order is “final” for the purposes of these Principles when it is subject to enforcement in the State of origin, even if it is also subject to appeal or an appeal is pending.**

**(2) “Agreement” means a bargain of two or more parties that results in legal obligations. The term includes agreements, contracts, licenses, assignments, pledges, grants, and other voluntary transfers, regardless of how the particular transaction or transfer is denominated.**

**(3) “Mass-market agreement” means an agreement that:**

**(a) is prepared by one party for repeated use;**

**(b) is presented to another party or parties (the “nondrafting party”) by the party on behalf of whom the draft has been prepared (the “drafting party”); and**

**(c) does not afford the nondrafting party a meaningful opportunity to negotiate its terms.**

**(4) “Registered right” means any intellectual property right covered by § 102(1) that is not valid unless and until granted by a competent State authority.**

**(5) “State” means an entity with a defined territory and a permanent population, under the control of its own government, that engages in, or has the capacity to engage in, foreign relations with other such entities. The allocation of authority between a State and its territorial subdivisions is determined under the law of that State.**

**(6) “Transnational civil dispute” means a civil action in a court of a State (the “forum State”) in which:**

**(a) there is a claim or defense under the intellectual property rights of another State (the “non-forum State”); or**

**(b) there is a claim arising out of activities that implicate intellectual property rights where the activities occur, at least in part, outside the forum State.**

**Comment:**

*a. Judgment.* “Judgment” should be understood in the same way as is employed in the ALI Project on Recognition and Enforcement of Foreign Judgments: Analysis and Proposed Federal Statute (hereinafter ALI Foreign Judgments Project) § 1(b). Provisional orders are subject to special rules. See §§ 214 and 401(4).

*b. Agreement.* There are technical differences between agreements, contracts, licenses and other voluntary transfers. For example, the Uniform Commercial Code (2004)

defines an “agreement” as “the bargain of the parties in fact,” § 1-201, and it defines a “contract” as “the total legal obligation that results from the parties’ agreement,” *id.* However, the Principles are meant to apply to diverse legal systems and thus avoid technical definitions that may not be universally understood. Accordingly, these terms are used interchangeably.

*c. Mass-market agreement.* Mass-market agreements are standard form, prepackaged, prepared, and presented unilaterally by one party, without the other party having any meaningful opportunity to negotiate the terms, and are typically intended by a provider of a product that is sold or licensed widely to the general public. They are common in transactions involving information products, appearing in products delivered in physical form as so-called “shrinkwrap” licenses and in products delivered digitally as “clickwrap” licenses.

*d. Registered right.* An important concept in international intellectual property law is the distinction between registered and unregistered rights. When used in the Principles, “registered rights” include only intellectual property rights the protection of which is conditioned upon a grant by a competent State authority. This applies, for example, to patents, industrial designs, plant varieties, semiconductor-chip designs, and *registered* trademarks (as opposed to trademark rights arising from use), all of which are valid only when deposited or registered with, or granted by, the competent State authority.

Some international agreements facilitate multinational deposits or registrations and related grant procedures. Typically, under these agreements, a single deposit, registration, or grant with or by a central authority is deemed to have the same effect as a national deposit, registration, or grant in

each country designated by the depositor, registrant, or applicant. An example is the Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks, June 27 1989, S. TREATY DOC. NO. 106-41, available at [http://www.wipo.int/madrid/en/legal\\_texts/pdf/madrid\\_protocol.pdf](http://www.wipo.int/madrid/en/legal_texts/pdf/madrid_protocol.pdf) (hereinafter Madrid Protocol). A right registered under such an agreement is considered a “registered right” under the Principles.

Purely permissive deposit, registration, or recordation regimes under which the deposit, registration, or recordation is not a *condition* for protection will not make the intellectual property right in question a “registered right” within the meaning of the Principles. Consequently, copyrights and neighboring rights will generally not be registered rights as defined herein. While registration of copyrights is possible in some countries, namely the United States, it “is not a condition of copyright protection.” 17 U.S.C. § 408(a). Rather, copyright protection is generally afforded as a matter of law upon the creation of a copyrightable work. No registration or recordation is required for protection. In fact, art. 5(2) of the Berne Convention prohibits formalities as a prerequisite for enjoyment of the rights guaranteed by it.

*e. State.* As used here, “State” should be understood in the same way as is employed in the Restatement Third, The Foreign Relations Law of the United States (hereinafter Restatement of Foreign Relations) § 201. Thus, the term does not refer directly to the constituent units of federal States or the political subdivisions of States. For example, it does not refer to states of the United States, because “under the Constitution of the United States foreign relations are the exclusive responsibility of the Federal Government”; see Restatement of Foreign Relations § 201, Comment *g.* How-

ever, a State's authority may be divided among a central government and territorial subdivisions. These Principles do not address the competence of a territorial subdivision (such as a state of the United States) to promulgate intellectual property law. Nor do they address the competence of a subdivision's court (such as a court of a U.S. state) to hear a case, assert jurisdiction over a party, or enforce a judgment. These allocations of competence are determined under local law. For example, a trademark registered in a state of the United States is a registered right under the Principles because it is "granted by a competent State authority."

The member states of the European Union are "States" because they have the capacity to engage in foreign relations. The same may be true of other international economic integration organizations.

*f. Transnational dispute.* These Principles accommodate disputes that arise out of the changing technological environment in which intellectual property is developed, disseminated, and exploited. This environment enhances the possibility that one State will be called upon to adjudicate a dispute that requires it to interpret the intellectual property law of another State or other States, or to apply either domestic or foreign intellectual property law to activities that occur in another State or other States. Global exploitation of intellectual property also increases the likelihood that the same transactions or occurrences will spawn in several States litigation that could usefully be coordinated.

Courts faced with disputes connected in other ways to more than one State may find guidance in these Principles. However, the Principles are not intended directly to affect purely domestic cases.

**Illustrations:**

1. A, a resident of Patria, sues B, a resident of Xandia, alleging that B's activities in Patria infringe A's Patrian patent. The suit is brought in Patria.

The Principles do not apply to this dispute. Although the dispute involves litigants from more than one State, the Patrian court will apply the patent law of Patria to activities occurring in Patria.

2. Same facts as Illustration 1, except that A also holds patents in Xandia, Tertia, and Quatria, and alleges that B has infringed all of these as well. A sues in each State, and B seeks to coordinate the dispute pursuant to Part II of the Principles.

The Principles apply to this dispute. Although none of the individual cases arise under the Principles, coordinated adjudication requires a court to consider claims, defenses, and activities arising outside its forum.

3. A, a resident of Patria, sues B, a resident of Patria, in Patria to determine their respective rights to exploit B's copyrighted work in Patria and Xandia.

The Principles apply to this dispute. Although A and B are both residents of Patria, the Patrian court will be called upon to determine the effect of activities in Xandia (which may or may not involve application of Xandian copyright law).

4. A, a resident of Patria, owns a facility in Xandia from which it can receive television programs broadcast in Patria. It streams the programs back into Patria. B, the holder of Patrian copyrights in the programs, sues A in Patria for copyright infringement.

The Principles apply to this dispute for the reasons stated in Illustration 3.

5. Same facts as 4; assume that B wins and brings an action to enforce the judgment in Xandia. Assume that Xandia is a federated government, with two territorial subdivisions, South and North. B brings the action in a Xandian federal court and A moves to dismiss on the ground that that under Xandian law, the courts of South have sole enforcement authority.

If the suit was brought under the Principles, the enforceability of the judgment will be determined by the Principles; see Part IV. However, the allocation of judicial authority as among the federal courts in Xandia and the courts of South and North is determined by Xandian law.

6. A, a resident of Patria, registers its Patrian trademarks with the Patrian customs authority and asks that goods bearing that trademark be excluded at the border. B, C, and D, residents of Xandia, Tertia, and Quatria, ship goods bearing that trademark into Patria. A brings an exclusion action in the administrative tribunal that Patria established to hear these disputes.

The Principles do not apply to this dispute. Although the dispute involves litigants from several jurisdictions, the Patrian court will apply Patrian trademark law to decide whether these goods can lawfully be imported into Patria. More generally, the Principles are not focused on in rem actions or adjudications in administrative tribunals. In rem actions are easily localized; thus, they rarely present the extraterritorial issues to which the Principles are directed. Further administrative adjudication presents procedural problems that are beyond the Principles' scope.

## REPORTERS' NOTES

1. *Mass-market agreements.* The Principles utilize the concept of mass-market agreements, i.e., agreements the offer of which are unilaterally prepared by or on behalf of and presented by one party, intended to be used repeatedly, and that the other party (the “nondrafting party”) has no meaningful opportunity to negotiate. The concept is consistent with emerging norms for international commercial contracts. See, e.g., UNIDROIT Principles of International Commercial Contracts 2004, arts. 2.1.19-2.1.22. The more general treatment of “mass-market contracts” has been preferred to approaches specific to consumer contracts (as under art. 5 of the Convention on the Law Applicable to Contractual Obligations, June 19, 1980, 19 I.L.M. 1492, available at [http://www.rome-convention.org/instruments/i\\_conv\\_orig\\_en.htm](http://www.rome-convention.org/instruments/i_conv_orig_en.htm) (hereinafter the Rome I Convention] or arts. 15-17 of Council Regulation (EC) 44/2001, 2001 O.J. (L 12) 1, 6-7, available at [http://europa.eu.int/eur-lex/pri/en/oj/dat/2001/l\\_012/l\\_01220010116en00010023.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2001/l_012/l_01220010116en00010023.pdf) (hereinafter Brussels Regulation], for example), because the approach by overall categorization (“consumers” vs. “providers”) may not be just and equitable for the providers; for example, a provider of programs to a large company may be subject to unreasonable terms of a mass-market agreement without any meaningful opportunity to negotiate. On the other hand, unlike, for example, under art. 17 of the Brussels Regulation, choice-of-court and choice-of-law contracts with consumers are not per se unenforceable. Rather, they are subject to special scrutiny, §§ 202(3) and 302(5).

2. *Registered rights.* For the distinction between registered rights and nonregistered rights in a jurisdictional context, see *Pearce v. Ove Arup P'ship Ltd.*, (2000] Ch. 403 (C.A. Civ. D. 1999) (U.K.); *Coin Controls Ltd. v. Suzo Int'l (UK) Ltd.*, (1999] Ch. 33 (1997) (U.K.); *Vanity Fair Mills v. T. Eaton Co.*, 234 F.2d 633 (2d Cir. 1956); *London Film Prod. Ltd. v. Intercontinental Commc'ns, Inc.*, 580 F. Supp. 47, 49 (S.D.N.Y. 1984); Brussels Regulation art. 22(4). For examples of rights registered through an international system, see, e.g., Madrid Protocol art. 4(1) (“From the date of the registration or recordal effected in accordance with the provisions of Articles 3 and 3ter, the protection of the mark in each of the Contracting Parties concerned shall be the same as if the

mark had been deposited direct with the Office of that Contracting Party.”); Geneva Act of the Hague Agreement Concerning the International Registration of Industrial Designs art. 14(1), July 2, 1999, available at [http://www.wipo.int/hague/en/legal\\_texts/wo\\_haa\\_t.htm](http://www.wipo.int/hague/en/legal_texts/wo_haa_t.htm) (“The international registration shall . . . have at least the same effect in each designated Contracting Party as a regularly-filed application for the grant of protection of the industrial design under the law of that Contracting Party.”); Convention on the Grant of European Patents (European Patent Convention) art. 64(1), Oct. 5, 1973, 1065 U.N.T.S. 255, available at <http://www.european-patent-office.org/legal/epc/e/ma1.html> (hereinafter EPC] (“A European patent shall . . . confer on its proprietor from the date of publication of the mention of its grant, in each Contracting State in respect of which it is granted, the same rights as would be conferred by a national patent granted in that State.”). For purposes of the Principles, the resulting national right in question is treated as a registered right of the State for which the deposit, registration, or grant is deemed to be effective under the applicable international agreement.

3. *State.* For other definitions of “State,” see ALI Foreign Judgments Project § 1(c); Hague Convention on the Law Applicable to Matrimonial Property Regimes arts. 17, 18, March 14, 1978, 16 I.L.M. 14 available at [http://www.hcch.net/index\\_en.php?act=conventions.pdf&cid=87](http://www.hcch.net/index_en.php?act=conventions.pdf&cid=87); Hague Convention on the Law Applicable to Agency arts. 19-21, Mar. 14, 1978, 16 I.L.M. 775, available at [http://www.hcch.net/index\\_en.php?act=conventions.text&cid=89](http://www.hcch.net/index_en.php?act=conventions.text&cid=89) (dealing with States having subdivisions); WIPO Copyright Treaty art. 17(3), S. TREATY DOC. No. 105-17; 36 I.L.M. 65, available at [http://www.wipo.int/treaties/en/ip/wct/trt\\_docs\\_wo033.html](http://www.wipo.int/treaties/en/ip/wct/trt_docs_wo033.html) (dealing specially with the European Union).

## § 102. Scope and Applicability of the Principles

**(1) These Principles apply to transnational civil disputes that involve copyrights, neighboring rights, patents, trade secrets, trademarks, related intellectual property rights, and agreements related to any of these rights.**

**(2) A court should, upon a party's timely request or upon its own motion, make a specific finding as to whether a dispute before it comes within the Principles.**

**Comment:**

*a. Territorial coverage.* See § 101(6) and Comment *f*.

*b. Intellectual property coverage.* The core international intellectual property agreements, supplemented by emerging international norms, provide the basis for interpreting the meaning of intellectual property rights. Thus, the TRIPS Agreement applies to patents, copyrights, and trademarks, as well as to neighboring rights (the rights of performers, phonogram producers, and broadcasting organizations that are akin to copyright), geographic indications, industrial designs, layout designs, plant varieties, and rights in undisclosed information (trade secrets), and, to the extent covered in the Berne Convention, artists' resale rights (*droit de suite*). Through its incorporation of the Paris Convention, the TRIPS Agreement also covers "honest practices" and practices "established in international trade." These terms encompass claims that create private rights against passing off, unauthorized use of unregistered trademarks and trade dress, dilution, false association, misrepresentation, breaches of confidential relationships, and misappropriation. In addition, the Principles cover forms of intellectual property that are generally recognized, albeit outside the scope of enforcement proceedings under the TRIPS Agreement. This includes moral rights (*droit moral*) and contractual rights limiting the use of transferred information. For purposes of applicable law, the source of these claims may be States or their federal subunits.

As the contents of "intellectual property" evolve and receive international recognition, the Principles should be

sufficiently open-ended to encompass them. It may even become appropriate for courts to apply the Principles in a case in which not all countries in the world recognize the right claimed. For example, many countries protect the interests secured in (some of) the United States under the name “right of publicity” and in many European countries under the name “right to one’s own image.” The rights may not be identical in scope or in rationale (though that may also be true of more formal intellectual properties), but if a dispute arises involving at least one jurisdiction where these rights exist, the court should look to these Principles for guidance as to both judicial and legislative competence.

*c. Patents and other registered rights.* There is a shared understanding that patents are intellectual property rights — they are, for example, covered by both the Paris Convention and the TRIPS Agreement. However, a strong argument could be made that registered-rights cases in general, and patent cases in particular, pose special problems and should be excluded from the Principles. Registered-rights cases are subject to a special jurisdiction rule in the Brussels Regulation; without a change in that Regulation, some of the goals of these Principles could not be realized in cases subject to the Regulation. In addition, registering and maintaining registration can be considered what U.S. doctrine calls “acts of state”—State administrative determinations that foreign courts should not upset. And because the social costs of patenting are so high (particularly for pharmaceuticals), some fora might become “information havens,” over-eager to invalidate patents on a worldwide basis. There are also concerns over adjudicatory process. Both validity and infringement issues may be considered too technical to be decided by courts of general jurisdiction. Differing discovery opportunities could lead to important differences in outcome, particularly on issues, like priority of invention,

that are unique to the law of the United States, where broad discovery is available.

Nonetheless, the Principles have been drafted to cover patent and registered-right cases, to demonstrate how the problems associated with adjudicating them in this format can be resolved. Thus, limitations on the use of declaratory-judgment actions (§§ 213, 413), their significance for choice-of-court purposes (§ 222(4)(c)), and the power given courts through the coordination provisions (§§ 221-223) should reduce concerns about forum manipulation. The technical-incompetence issue might be addressed by using the cooperation option or by situating consolidated patent actions in those States that have specialized technically competent jurisdictions, like the United States Court of Appeals for the Federal Circuit, and similar courts in other jurisdictions (§ 222(4)(c)). A court could find that the prejudicial absence of adequate discovery is a ground for refusing enforcement and recognition (§ 403(1)(a) and Comment *b*). The Comments to §§ 211 and 213 include a further discussion of the problems presented by patent litigation.

*d. Domain names.* Domain-name disputes that are covered by special systems of dispute resolution such as the Uniform Dispute Resolution Policy (UDRP) adopted by The Internet Corporation for Assigned Names and Numbers (ICANN), are not within the Principles. However, such disputes can involve claims explicitly governed by the TRIPS Agreement or the Paris Convention. (For example, claims of conflict with trademark rights raise issues of consumer confusion, misrepresentation, dilution, or false association.) When the system for resolving such disputes through nonjudicial means is nonbinding (as is, for example the ICANN system), then the Principles apply to any ensuing litigation. As a general matter, these Principles take the position that intellectual property disputes are transitory

and that an action can be brought where there is adjudicatory authority over the defendant; there is little reason to focus any more on the “property” dimension of domain names than on the property dimension of other intellectual property rights.

*e. Supplemental jurisdiction.* Principles limited to intellectual property matters could lead to bifurcation of cases and thus to the expenditure of extra resources, as parties choose to litigate, or seek enforcement of, the intellectual property portions of their cases in courts that have adopted these Principles, while other parts of their dispute wind up in other places. Such situations could surely arise, but these Principles should avoid more duplicative litigation than they will cause. In addition, § 212 permits the assertion of authority to consider claims that arise out of the transaction, occurrence, or series of transactions or occurrences on which the original claim is based, such as foreign claims, when the court has personal jurisdiction over the litigant under §§ 201-207 to hear these “supplemental” claims. Similarly, the antitrust claim in Illustration 2, below, could be determined by the court that heard the patent-validity issues.

*f. Line-drawing.* Intellectual property claims are sometimes embedded in other disputes. For example, a case involving the sale of the assets of a corporation may raise questions about the value of intellectual property assets. Antitrust cases may also involve claims of patent misuse or invalidity. Employment disputes can include claims about who owns rights to information developed in the course of employment. Some unfair trade practices implicate subject matter covered by intellectual property rights or analogous to such subject matter (and are thus intended to be covered by the Principles); others do not. An example of the former would be misleading comparative advertisements identifying goods by their trademarks. An example of the latter is

predatory pricing of consumer goods. Determining which of these cases are within the scope of these Principles will not always be easy. However, this problem is not uncommon in any litigation system in which there are specialized rules of procedure or courts of specialized subject-matter jurisdiction. Thus, it is not insuperable. The Principles cover a dispute when it involves claims for remedies expressly granted by intellectual property laws or raises significant questions on the construction of intellectual property laws. In such circumstances, adjudication can benefit from the Principles' coordination and applicable-law provisions.

**Illustrations:**

1. Organizations servicing Manufacturing Co.'s complex equipment sue Manufacturing Co., claiming that its refusal to sell them parts needed to repair their equipment violates the competition laws of the United States, the European Union, and Japan. Manufacturing Co. defends on the ground that the parts are patented and this gives them the right to refuse to deal. The plaintiffs do not dispute the validity of Manufacturing Co.'s patents.

This case does not fall within the Principles. The complaint is for an antitrust violation. Although patent scope issues may emerge in the defense, resolution of those questions is incidental to and independent of the issues of competition policy.

2. Nosh Co. brings an antitrust action against Runner, claiming that Runner attempted to monopolize the global market for food-processing through the use of patents procured by fraud. Runner defends on the ground that its various national patents were properly obtained.

This case falls within the Principles because resolution of the case hinges on the determination of whether Runner's patents are valid.

3. Professor X sues his university for claiming rights to worldwide patents on inventions generated in his laboratory. The university claims that Professor X's employment contract assigned rights in all future inventions to the university.

This case falls within the Principles because the transfer of intellectual property rights is a concern of the international intellectual property system. Indeed, one important reason to adopt a system of international dispute resolution is to deal efficiently with conflicting rules on title and transfers. See §§ 311-317.

In some cases, the intellectual property issue arises in the defendant's case. For example, in Illustration 2, validity issues arise in the counterclaim. Arguably, subject-matter issues should be determined only by looking at the complaint, as is the practice in U.S. federal courts. However, there is little reason to look only to plaintiff's claim to determine the applicability of the Principles. Within specific jurisdictional systems, courts with special subject-matter authority tend to work best when they are small enough for judges to stay in close contact with and abreast of one another's decisions. But docket restraint is not an issue here. Indeed, the opposite is the case: since coordination and enforcement of foreign judgments save judicial resources, the scope of these Principles should be broad.

Determining the scope of subject-matter authority by looking only at the complaint also permits the question of allocating judicial authority to be decided at the earliest stage of the pleadings, before significant development and

resource expenditure have occurred. Again, this is not a concern here because the plaintiff will presumably want at least part of the case adjudicated in the chosen court, no matter what the international ramifications of the judgment. Thus, there is no need to limit coverage to the first claims that the plaintiff raises. So long as a case mainly resolves transnational intellectual property issues, it should fall within these Principles, no matter who raised the claim or when in the initial stages it was raised.

*g. Declaration of scope.* There will often be a point in the litigation when the parties will want to know whether their case will terminate in a judgment entitled to enforcement in all States whose courts have adopted these Principles. They may only need to learn this at the end, or they may need to think about it at the stage where they are formulating their case, determining whether global adjudication might be coordinated or issues of court selection arise. Because there will be marginal cases where the decision will be difficult (especially in the years before a jurisprudence on the question has developed), § 102(2) instructs the court to determine the applicability of these Principles to its adjudication. Similar techniques have been suggested in connection with the application of the ALI/UNIDROIT Principles to litigation. This action will not make drawing the line easier, but it will give parties full notice of the rules, including applicable-law rules, that will apply to the case and of the effects of the judgment at the stage at which they are making important strategic choices. The court rendering the judgment is better suited to declare the applicability of the Principles than is the court that later may be asked to enforce the judgment.

## REPORTERS' NOTES

1. *Relevance of intellectual property instruments.* The TRIPS Agreement and its attendant organizations have fostered a legal environment in which an informal accord on adjudicative rules can work. The States most likely to entertain actions where these Principles would be of value have joined the TRIPS Agreement or have implemented law compatible with it; see §§ 204(3) and 222(4)(f). As a result, potential litigants will have some assurance that their disputes will be adjudicated in places that have agreed to enforce the laws that will be at issue. Indeed, many disputes will be resolved in States that, through their adherence to the TRIPS Agreement, have agreed to assure transparent and efficient judicial process, and that are amenable to dispute resolution proceedings should they fail to fulfill their obligations fairly and adequately. Moreover, although litigants resolving disputes under these Principles will not have access to a centralized and authoritative appellate body (such as the United States Supreme Court or the European Court of Justice), TRIPS has institutional mechanisms (such as dispute resolution panels, the Dispute Settlement Board, and the Council for TRIPS) for examining and revising the law as it develops.

2. *Line-drawing: the “arising under” and “well-pleaded complaint” approaches.* In the U.S. system, there is substantial jurisprudence on line drawing, developed in connection with choosing the cases that can be heard in a federal (as opposed to state) court and also to determine the route of appeal as between a regional circuit and the Court of Appeals for the Federal Circuit, which hears patent appeals. In general, the allocation of jurisdiction turns on whether the case “arises under” federal (or patent) law, 28 U.S.C. §§ 1331, 1338, 1295. In *American Well Works Co. v. Layne & Bowler Co.*, 241 U.S. 257, 260 (1916), Justice O.W. Holmes interpreted this language as meaning that “[a] suit arises under the law that creates the cause of action.” However, subsequent courts have regarded that test as overly inclusive. In the intellectual property context, the formulation most often cited is that of Judge Henry Friendly in *T. B. Harms Co. v. Eliscu*, 339 F.2d 823, 828 (2d Cir. 1964), cert. denied, 381 U.S. 915 (1965):

Mindful of the hazards of formulation in this treacherous area, we think that an action “arises under” the Copyright

Act if and only if the complaint is for a remedy expressly granted by the Act, e.g., a suit for infringement or for the statutory royalties for record reproduction, 17 U.S.C. § 101, cf. *Joy Music, Inc. v. Seeco Records, Inc.*, 166 F. Supp. 549 (S.D.N.Y. 1958), or asserts a claim requiring construction of the Act, as in *De Sylva v. Ballentine*, 351 U.S. 570 (1956) or, at the very least and perhaps more doubtfully, presents a case where a distinctive policy of the Act requires that federal principles control the disposition of the claim.

As a result of this narrowed conception of “arising under,” the claims in *T.B. Harms*—which concerned ownership of copyrights—were not considered within the subject-matter jurisdiction of federal courts. *Id.* (It is important to note that the Copyright Act in effect at that time did not provide comprehensive treatment of ownership issues). See also *Louisville & Nashville R.R. Co. v. Mottley*, 211 U.S. 149 (1908) (counterclaims, cross-claims, and issues arising in defenses are ignored for determining a trial court’s subject-matter jurisdiction); *Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, 535 U.S. 826, 829-830 (2002) (using the well-pleaded-complaint rule to determine the route of appeal under 28 U.S.C. § 1295, as between the regional and Federal circuits). This is not the approach adopted to determine the applicability of the Principles. (It will, of course, continue to be applied in the United States to decide when there is jurisdiction in federal courts).

But even if the specific formulas proposed by Judge Friendly or Justice Holmes are not apposite, the general approach they took is. Thus, both essentially looked for an allocation rule that reflects the rationale for drawing lines in the first instance. Friendly, for example, alluded to “a distinctive policy of the Act [that] requires that federal principles control.” *T.B. Harms*, 339 F.2d at 828. The Principles aim to ensure that intellectual property disputes of international dimensions are resolved efficiently and consistently with unambiguous international norms, to the extent that they exist in this area. International intellectual property agreements should, therefore, serve as a touchstone. Under such an approach, cases that primarily concern constraints on competition, or the sale of a business, or termination of employment, are not within these Principles’ scope. Cf. Commission Proposal for a Council Regulation on the Community Patent, art. 46, COM (2000) 412

final, 2000 O.J. (C 337 E) 278, 288 (Nov. 28, 2000), available at <http://eur-lex.europa.eu/LexUriServ/site/en/oj/2000/ce337/ce33720001128en02780290.pdf> (disputes over patent ownership between employer and employee will fall under the jurisdiction of national courts, not the European Patent Court), see also Council Document 7119/04, Note from Presidency to Council (Competitiveness), Preparation of the Meeting of the Council on 11 March 2004 – Community patent = Proposal for a Council Regulation on the Community patent (Mar. 8 2004), available at <http://register.consilium.eu.int/pdf/en/04/st07/st07119.en04.pdf> (hereinafter Council Document 7119/04).

Disputes involving ownership of covered intellectual property rights present a more difficult issue. The proposal for a European Patent Court excludes from jurisdiction claims of ownership and the import of the *T.B. Harms* case was similarly, to exclude ownership claims from the scope of federal jurisdiction when those claims do not arise under the statute. See art. 30 of the Commission Proposal for a Council Regulation on the Community Patent, COM (2000) 412 final, 2000 O.J. (C 337 E) 278 (Nov. 28, 2000), available at <http://eur-lex.europa.eu/LexUriServ/site/en/oj/2000/ce337/ce33720001128en02780290.pdf>, as most recently amended by Council Document 7119/04, *supra*. Moreover, as the Appellate Body Report relative to the Havana Club case notes, ownership is not directly covered by the TRIPS Agreement. Appellate Body Report, United States—Section 211 Omnibus Appropriations Act of 1998, ¶¶ 139-148, WT/DS176/AB/R (Jan. 2, 2002) (hereinafter Havana Club case).

Nonetheless, the efficiency and consistency goals that animate these proposed Principles argue for including ownership disputes within its scope. Some issues of ownership would be included in any event: those that are based directly on intellectual property law provisions, see, e.g., *Comty. for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989); *New York Times Co. v. Tasini*, 533 U.S. 483 (2001), and those that arise in the context of infringement actions, see, e.g., *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.*, 145 F.3d 481 (2d Cir. 1998); *Random House, Inc. v. Rosetta Books LLC*, 150 F. Supp. 2d 613 (S.D.N.Y. 2001). In addition, the same Appellate Body Report found that the United States had an obligation under art. 42 of the TRIPS Agreement to permit the assertion of ownership claims under domestic law, Appellate

Body Report in the Havana Club case, *supra*, at ¶ 218, thus clarifying that the international intellectual property community regards ownership issues, even when presented alone, as within the scope of intellectual property agreements. For a European approach, see e.g. Peter von Rospatt, Cross Border Protection of European Patents, Part Two: Decisions of German Courts in Patent Infringement Cases with Cross-Border Effect, 29 Int'l Rev. Intell. Prop. & Competition L. 504 (1998). See generally William Patry, Choice of Law and International Copyright, 48 Am. J. Comp. L. 383, 410-47 (2000) (giving many examples of difficult choice-of-law questions regarding copyright ownership).

The first two illustrations are drawn from the facts of *In re Independent Service Organizations Antitrust Litigation*, 203 F.3d 1322 (Fed. Cir. 2000) and *Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965). Because both cases involved federal antitrust claims, original subject-matter jurisdiction in federal court was not an issue. *Post-Holmes Group*, both would be appealable to regional circuits, not the Federal Circuit. They are used to emphasize that these rules do not follow the interpretation of federal subject-matter-jurisdiction law. Similarly, Illustration 3 is based on *University of Massachusetts v. Robl*, 2004 WL 1725418 (D. Mass. 2004), which took the view that the dispute between an employee and his university over transfer of the employee's patent rights did not state a federal patent-law claim; such a claim would be encompassed by the Principles.

3. *Claim-splitting*. In the U.S. federal system, the practice of permitting the assertion of transactionally related claims took hold in *Hurn v. Oursler*, 289 U.S. 238 (1932), where the plaintiff joined to a claim for copyright infringement a claim of unfair competition for unauthorized use of the allegedly copyrighted play. Even though the second claim was based on state law, it was adjudicated in federal court on the ground that these claims were “not separate causes of action, but different grounds asserted in support of the same cause of action,” *id.* at 247. The concept expanded to cover state and federal claims that “derive from a common nucleus of operative fact,” *United Mine Workers of Am. v. Gibbs*, 383 U.S. 715, 725 (1966). Significantly, the practice was justified by “considerations of judicial economy, convenience and fairness to litigants”—in other words, by the same concerns that animate these Principles. *Id.* at 726. See also *Nilssen v. Motorola, Inc.*, 255 F.3d 410 (7th Cir. 2001)

(trade-secret claim should be considered supplemental to patent claim to avoid wasting judicial resources and the potential for inconsistent outcomes).

The *Gibbs* “common nucleus of operative fact” test was designed to define when a case is within the constitutional authority of U.S. federal courts. Constitutional authority is not a consideration here, however, as the court’s subject-matter power over the dispute comes strictly from national law. The “transaction, occurrence, or series of transactions or occurrences on which the original claim is based” language is easier to apply since it is used in other contexts. Furthermore, it is similar to the language of art. 6(3) of the Brussels Regulation (“arising from the same contract or facts on which the original claim was based”). Accordingly, it is that language which is used in § 212 to determine the scope of the court’s authority over the subject matter (as opposed to its authority over the litigants, which is controlled by §§ 201-207).

4. *Local v. transitory actions*. Some courts have justified the dismissal of intellectual property claims arising under foreign laws on the ground that intellectual property actions are local, not transitory causes; the Principles reject that theory. Accord, *Kabushiki Kaisha Sony v. Van Veen*, Civ-2004-485-1520 (H.C. 2006) (N.Z.); *R. Griggs Group Ltd. v. Evans*, [2004] EWHC (Ch) 1088, aff’d on other grounds, [2005] EWCA (Civ) 11 (C.A.) (Eng.). In registered rights cases, however, the “local” characterization is more compelling when the issue concerns the validity of the registration, because only the state that registered the right has the power to cancel the registration. This kind of “local” action is more properly conceived as an iteration of the Act of State doctrine; the jurisdictional analysis would be more coherent if courts were to forego the “local” and “transitory” appellations, and focused instead on the sovereign interests captured by the Act of State doctrine. Nonetheless, in *Voda v. Cordis Corp.*, \_\_\_ F.3d \_\_\_ (Fed. Cir. 2007), a panel of the Federal Circuit, over a powerful dissent by Judge Newman, assumed arguendo that the Act of State doctrine applied, and held that patent infringement claims should be considered “local” actions.

5. *Patents and other registered rights*. Registered rights cases have caused a great deal of controversy because there is a strong intuition that the only tribunals with the expertise and authority to declare a right

invalid or a nullity are the courts (or patent office) of the State in which the right is registered. See, e.g., Brussels Regulation; art. 22(4); Case C-4/03, *Gesellschaft für Antriebstechnik mbH & Co KG v Lamellen und Kupplungsbau Beteiligungs KG*, [2006] F.S.R. 45 (refusing to permit a German court to determine the consequences of allegedly patent-infringing activity in France when the case required the determination of the validity of the French patent); cf. Case C-593/03, *Roche Nederland BV v. Primus*, [2007] F.S.R. 5 (refusing to permit a Dutch court to join foreign defendants to a patent infringement suit involving a resident defendant). In the United States, even entertainment of a foreign infringement action raises concerns; thus a divided panel of the Federal Circuit held that a district court abuses its discretion if it entertains foreign infringement actions as a matter of supplemental jurisdiction under § 1367(c). *Voda v Cordis Corp.*, \_\_\_ F.3d \_\_\_ (Fed. Cir. 2007). As a result, these cases require special treatment because they cannot be consolidated. The Principles create two options for disputes involving challenges to rights registered in more than one State. First, some efficiencies can be achieved by having the courts in each of the States in which a challenged right is registered cooperate with each other, § 222. Alternatively, the parties and the court may decide that efficiencies can be achieved if only one adjudicator is required to master the core features of the plaintiff's technology. Those efficiencies can be captured by consolidating adjudication of validity in a single court. However, in such cases, the judgment will be effective only among the litigants, §§ 211(2), 212(4), 213(3), and 413(2). As protection in multiple countries is increasingly achieved under the auspices of such unifying instruments as the Madrid Protocol, the Patent Cooperation Treaty, June 19, 1970, 28 U.S.T. 7645; 9 I.L.M. 978, available at <http://www.wipo.int/pct/en/texts/pdf/pct.pdf> (hereinafter PCT), and the EPC, the impact of discrete national registration on the efficiency of dispute resolution should be reconsidered.

6. *Domain Names.* For ICANN's own dispute resolution mechanism, see <http://www.icann.org/udrp/udrp.htm>. ICANN dispute resolutions do not exclude later recourse to national courts. See, e.g., *Storey v. Cello Holdings, LLC*, 347 F.3d 370 (2d Cir. 2003). (But if no recourse is made, then the panel decision is binding).

**§ 103. Distinction Between Jurisdiction and Applicable Law**

**(1) Competence to adjudicate does not imply application of the forum State's substantive law.**

**(2) A court should not dismiss or suspend proceedings merely because the dispute raises questions of foreign law.**

**Comment:**

*a. Distinction between the law of the forum State and applicable law.* One of the basic tenets of private international law is the distinction between personal jurisdiction (judicial competence) of the court and the applicable law (legislative competence). In intellectual property, such a distinction was often ignored, mainly because of the principle of territoriality, under which the forum was most often the place of the injury and the applicable law was generally assumed to be the law of the forum State. But with the increasing advent of infringements that have a simultaneous impact on multiple territories, assertion of judicial competence over a multiterritorial infringement is increasingly likely to be sought, and courts will have to consider what law or laws apply to the full territorial extent of the claim. There is as yet no *lex electronica* that would supersede the national law and thus avoid the inquiry into the appropriately applicable law(s), although the body of supranational substantive norms is growing and may eventually come to supply rules of direct application in transnational intellectual property matters. For the foreseeable future, there remains considerable room for the application of national laws. This section of the Principles therefore emphasizes the independence of the identification of applicable law from the designation of an appropriate court. It is especially important not to equate the two when the court is called upon to hear claims arising out of acts occurring in many

States. The forum's *courts* may be competent to hear a claim involving multiple States; that does not mean that the forum's *law* should determine the parties' rights with respect to each of those States.

**Illustration:**

1. Freeforall.com is a distributor of pirated copies of recorded music, with its principal place of business in Freedonia. Freeforall.com operates a website from which customers can download unauthorized copies to their computers throughout the world. Customers in France, Japan, Australia, Argentina, and the United States all download copies.

The courts of Freedonia have jurisdiction over copyright claims against Freeforall.com, because Freeforall.com is established there. (See § 201.)

A different principle governs the choice of which law applies to each of the various acts of alleged infringement in France, Japan, Australia, Argentina and the United States. (See § 301.)

*b. Cases involving foreign law.* Courts should not make the presence of foreign law the sole ground for dismissing a claim. Otherwise, the goal of consolidating worldwide claims would be undermined. Some courts consider foreign rights too difficult to adjudicate. While that may be a factor in certain patent cases, the convergence of the other branches of intellectual property law makes this a weak reason to dismiss foreign copyright or trademark claims. Patents that stem from a single application under the PCT or the EPC may likewise present issues on which there is broad consensus.

## REPORTERS' NOTES

1. *The distinction between the law of the forum State and the applicable law.* On this issue, see, e.g., Henri Batiffol & Paul Lagarde, 2 *Droit international privé* ¶ 668 (7th ed. 1983) (distinguishing between “compétence judiciaire” and “compétence législative”). In intellectual property cases, particularly in copyright, it is not unusual for the applicable law to be different from the forum State’s law. See, e.g., Ch. Boucher, *De la nature des règles relatives à la protection en France des auteurs étrangers*, 59 *Journal du droit international* 26 (1932) (citing French cases); François Perret, *Territorialité des droits de propriété industrielle et compétence “extra-territoriale” du juge de la contrefaçon: État de la question en droit des brevets d’invention*, in *Études de procédure et d’arbitrage en l’honneur de Jean-François Poudret* 125, 141 (Phidias Ferrari et al. eds., 1999); R. Luzzatto, *Problemi Internazionali di diritto di Autore*, *Studi in Memoria di Mario Giuliano*, Cedam, 589, 596 (1989). Cf. *Hanson v. Denckla*, 357 U.S. 235, 254 (1958) (distinguishing between the level of contact required for choice-of-law purposes and to determine the question of personal jurisdiction over a nonresident defendant).

2. *Overlapping prescriptive authority.* Because courts often do find sufficient contacts to apply forum law to persons subject to personal jurisdiction, litigants can be exposed to inconsistent judgments and multiple liability. That danger is a major impetus for these Principles. An example is *Society of Composers, Authors & Music Publishers of Canada v. Canadian Ass’n of Internet Providers*, [2004] 2 S.C.R. 427, ¶ 78 (Can.) (noting that the decision to find jurisdiction over an Internet service provider “raises the spectre of imposition of copyright duties on a single telecommunication in both the State of transmission and the State of reception, but as with other fields of overlapping liability . . . the answer lies in the making of international or bilateral agreements”).

3. *Cases involving foreign law.* It is not unusual for common law courts to invoke forum non conveniens when foreign law is involved and to dismiss foreign claims within their subject-matter authority. See, e.g., *Murray v. British Broad. Corp.*, 81 F.3d 287 (2d Cir. 1996); *Creative Tech., Ltd. v. Aztech Sys. Pte., Ltd.*, 61 F.3d 696 (9th Cir. 1995) (both copyright). For Commonwealth examples, see *Plastus Kreativ A.B. v. Minnesota*

Mining & Mfg. Co., [1995] R.P.C. 438, 447 (Ch. 1994) (Eng.); *Potter v. Broken Hill Proprietary Co.* (1906) 3 C.L.R. 479, 492 (Austl). See generally Richard Fentiman, *Foreign Law in English Courts: Pleading, Proof and Choice of Law* (1998). (Civil-law jurisdictions have no such doctrine). These Principles would require a change in that practice, but experience with the Principles would also significantly weaken the rationales that support it. Further, courts may be motivated to dismiss foreign claims because they are concerned that the litigants will spend time on a case only to find the judgment unenforceable; the Principles ameliorate that concern by making the coordination process contingent on the rendering of an enforceable judgment, see §§ 222(1)(h) and 223(5), and by providing provisions on enforcement, see §§ 401-413.

For the proposition that courts should not dismiss foreign copyright or trademark claims, or the claims that come in under the unfair-competition rubric, see Graeme W. Austin, *Domestic Laws and Foreign Rights: Choice of Law in Transnational Copyright Infringement Litigation*, 23 *Colum.-VLA J.L. & Arts* 1, 42-43 (1999). For judicial application of foreign law when local rights are in issue, see, e.g., *Itar-Tass Russian News Agency v. Russian Kurier, Inc.*, 153 F.3d 82 (2d Cir. 1998) (U.S. copyright claims raising questions of ownership under Russian law); *Films by Jove, Inc. v. Berov*, 341 F. Supp. 2d 199 (E.D.N.Y. 2004) (same); *Coral Corp. K.K. (Kabushiki Kaisha) v. Marine Bio K.K.* (Tokyo District Court October 16, 2003) (consolidating a U.S. patent claim with Japanese patent claims).

## 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 One deals with the court's power over the *litigants*; Chapter Two deals with the court's power over the *subject matter*, and Chapter Three 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 forego 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 One and Two 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 recog-

nized. 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 makes it impossible for 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 Three is designed for disputes that may 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 aim to create efficiency through promoting 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.

These 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 court 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 non-liability. 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> (describing “new solutions” to parallel litigation).

2. *Recent 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); *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 recently 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, 164-65 (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, see International Confederation of Societies of Authors and Composers, *Japanese Court: File Sharing Service Violates Copyright*, <http://>

[www.cisac.org/web%5Ccontent.nsf/Builder?ReadForm&Page=Article&Lang=EN&Alias=CN-2003-04-JAPON](http://www.cisac.org/web%5Ccontent.nsf/Builder?ReadForm&Page=Article&Lang=EN&Alias=CN-2003-04-JAPON).

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 Principles of Cooperation in Transnational Insolvency Cases 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>. 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.

## **Chapter One**

### **Personal Jurisdiction over the Defendant**

#### **§ 201. Defendant's Residence**

**(1) A person may be sued in any State in which the person resides.**

**(2) A natural person is resident in the State in which he or she is habitually found and maintains significant professional or personal connections.**

**(3) A juridical person is resident in any State or States in which:**

**(a) it has a statutory seat;**

**(b) it is incorporated or formed;**

**(c) its central administration or chief executive office is located; or**

**(d) it maintains its principal place of business.**

#### **Comment:**

*a. General jurisdiction.* Private international law firmly establishes the notion that the plaintiff may bring any suit in the courts of a State in which the defendant is resident. Similarly, it is understood that for juridical persons, there may be more than one such State. For example, a corporation may have business reasons to incorporate in several locations; multinational firms may establish centers on more than one continent; a firm created through a merger will often retain administration of different aspects of the combined business at different locations. The term “habitual residence” is sometimes used to emphasize that natural persons have only one residence. The Principles do not use

that term, but incorporate the same notion. Where a natural person maintains homes and significant professional or personal connections in more than one State, the court will apply its own criteria (for example, drawn from intestacy law) to determine which State is the “residence.”

*b. Primacy of the courts of the defendant’s residence.* The Principles make defendant’s residence only one basis of adjudicatory authority. Subsequent provisions specify other bases of jurisdiction.

The local law of States composed of territorial subdivisions may further restrict residence-based jurisdiction to a particular subdivision or subdivisions.

*c. Personal and subject-matter jurisdiction distinguished.* The Principles enumerate the bases of personal jurisdiction that furnish predicates for the enforcement of judgments under Part IV. They do not purport to change domestic law on personal jurisdiction for other purposes. Nor do they purport to change domestic law defining a court’s authority over the subject matter of the dispute.

**Illustration:**

1. Marc.com, a software company that devises and distributes peer-to-peer file-sharing applications, has its principal place of business in Patria and is incorporated in the island nation of Haven. It also has sales representatives resident in Xandia and Tertia.

Under § 201, Marc.com may be sued in Patria or in Haven, but not in Xandia or Tertia.

As a matter of personal jurisdiction, Marc.com may be sued in Patria or in Haven with respect to copyright infringements allegedly enabled by its software occurring anywhere in the world. If Marc.com is sued

in Patria and Patrian courts lack subject-matter authority over all foreign causes of action, the foreign portions of the case should be dismissed. However, if Patrian courts have subject-matter authority over those claims, the case should be retained.

### REPORTERS' NOTES

*1. Courts of the defendant's State of residence.* "Residence" is used in preference to the more ambiguous term of "domicile." The European concepts of (habitual) residence do not sweep as broadly as the United States' "doing business" basis of general jurisdiction. ("Doing business" as applied by U.S. courts, is an insufficient ground of general jurisdiction under these Principles, see § 207(6)). However, it was not considered necessary to expand the concept of "residence" to encompass what might be called "doing business plus," because §§ 204(1) and 204(3) recognize a broad geographic scope of jurisdiction in certain situations.

For a definition of residence, see, e.g., Code du droit international privé [Code of Private International Law], July 16, 2004, art. 4(2)(1) (Belg.), available at [http://www.notaire.be/info/actes/100\\_code\\_dip.htm](http://www.notaire.be/info/actes/100_code_dip.htm) (hereinafter Belgian Code of Private International Law): "le lieu où une personne physique s'est établie à titre principal . . .; pour déterminer ce lieu, il est tenu compte, en particulier, de circonstances de nature personnelle ou professionnelle qui révèlent des liens durables avec ce lieu ou la volonté de nouer de tels liens" [the place where a natural person has established his main residence . . .; in order to determine this place, the circumstances of personal or professional nature that show durable connections with that place or indicate the will to create such connections are taken into account]. Subsection (2)(c) adopts both European and U.S. terminology for describing the locus of an organization's control center; see, e.g., U.C.C. § 9-307(b). The Principles' definition is utilized in the Hague Convention on Choice of Court Agreements, art. 4(2).

*2. Presumptive but not preferred court.* Although the competence of courts in the defendant's forum is a cornerstone of private international law, in intellectual property cases it is not necessarily the preferred court. For example, with respect to registered rights, the defen-

dant's forum is certainly competent to rule on the validity or infringement of the rights that are registered in that State. However, when validity is put into issue, art. 22(4) of the Brussels Regulation creates exclusive jurisdiction in the courts of the State in which the deposit or registration has been applied for or has taken place (or is deemed to have taken place under an international Convention, such as the European Patent Treaty) even when this State is not that of the defendant's residence.

Another reason to reject a principle of preference for defendant's forum, or to limit the defendant's forum to a single State, concerns the volatile localization of many "virtual enterprises" present only on the Internet. Many of these may not in fact be domiciled in the State identified in the domain-name registration. As many national registers do not require that the applicant for a given domain name be domiciled in the State indicated by the second-level domain name, the sole indication is the one given to the registrar at the time of application; however, the holder of a domain name can change domicile and easily relocate in a State in which the enforcement climate might be lax.

## **§ 202. Choice-of-Court Agreements**

**(1) Subject to subsections (2) and (3), a person may be sued in any court that the parties have agreed will have jurisdiction with respect to the dispute in question, and, unless the parties' agreement clearly provides otherwise,**

**(a) the designated court will have exclusive jurisdiction with respect to that dispute, and**

**(b) the parties will be deemed to have waived objections to the designated court's personal jurisdiction over them.**

**(2) (a) Except as provided in subsection (3), a choice-of-court agreement is valid as to form**

**and substance if it is valid under the law of the designated forum State.**

**(b) Capacity of the defendant to enter into the agreement is determined by the law of the State in which the defendant was resident at the time the agreement was concluded; if the defendant has more than one residence, capacity will be recognized if it exists under the law of any one of its residences.**

**(3) (a) A choice-of-court clause in a mass-market agreement is valid only if the choice-of-law clause was reasonable and readily accessible to the nondrafting party at the time the agreement was concluded, and is available for subsequent reference by the court and the parties.**

**(b) Reasonableness under subparagraph (a) is determined in light of:**

**(i) the parties' locations, interests, and resources, taking particular account of the resources and sophistication of the nondrafting party;**

**(ii) the interests of any States connected to the dispute or to the parties;**

**(iii) the availability of remote adjudication in the designated court, such as online dispute resolution; and**

**(iv) whether the designated court was established in the forum State to foster expertise in adjudicating disputes of this type.**

**(4) If the choice-of-court clause is not valid under this Section, then jurisdiction is determined according to the other provisions of Part II of the Principles.**

**Comment:**

*a. Choice of court.* The term “choice of court” used in the Principles corresponds to the terminology of the Hague Convention on Choice of Court Agreements. It is not intended to have a different meaning from the more frequently used term “choice of forum.” The Principles are intended to accommodate the selection of the courts in a particular State, or the selection of a specific location, or the selection of a specific type of court. For example, an agreement might designate French courts, or the courts in Paris, or it might further specify the Commercial Court of Paris. Unless otherwise specified, choice-of-court clauses will be read as creating exclusive authority to resolve the parties’ disputes, in derogation of the power otherwise vested in the courts of other fora by these Principles and by domestic law. In some jurisdictions, a choice-of-court agreement does not waive objection to the existence of personal jurisdiction. In light of this, the Principles specify that choice-of-court agreements should be interpreted as the parties’ agreement to waive objections to personal jurisdiction.

*b. Court selection and subject-matter jurisdiction.* Although this provision permits the parties to select a court, the forum chosen must have subject-matter jurisdiction under local law. If it does not, then the plaintiff may choose another court consistent with these Principles.

**Illustration:**

1. Patent holder P and licensee L agree that all claims involving patents licensed through the agree-

ment, including any challenges to P’s patents, must be brought before the courts of Patria, where P’s business is established. L seeks a declaration of the invalidity of patents P has registered in Xandia and Tertia. Under Patrian law, its courts lack subject-matter authority to declare foreign patents invalid.

The courts of Patria cannot hear the case, notwithstanding P and L’s forum selection. Although the agreement may be enough to create *personal* jurisdiction, the courts of Patria do not have *subject-matter* jurisdiction over the claim. See also §203, Comment *b*.

*c. Other local limitations on the validity of court-selection clauses.* Except where the choice-of-court clause is contained in a mass-market agreement, § 202(2)(a) determines validity under the law of the State whose forum is specified in the agreement. For example, if the law of the designated State conditions validity on a connection between the forum and the parties or the dispute, and that connection does not exist, then the forum-selection clause is invalid. This is consistent with arts. 5(1) and 6(a) of the Hague Convention on Choice of Court Agreements, which looks to the law of the State of the chosen court to determine validity.

The Hague Convention would, in addition, permit a court other than the designated court that is seized with a case to refuse to give effect to the designation if it “would lead to a manifest injustice or would be manifestly contrary to the public policy of the State of the court seized” (art. 6(c)). The Principles reject this further limitation because it invites forum-shopping and therefore defeats the predictability that is the goal of the forum-selection clause. The unitary and fixed point of reference preferred by the Principles favors party autonomy and predictability at the time the contract is concluded. Finally, the Principles ad-

dress the core public policy concerns underlying the Hague approach through its special treatment of mass-market agreements. See 202(3). Validity may also be subject to a mandatory rule, applicable under § 323 of the Principles.

*d. Capacity.* Capacity to enter into a contract is determined by the law of the contractant's residence. Section 201 contemplates the possibility that a juridical person may have more than one residence; in such cases, the defendant is regarded as having capacity to contract if it has that capacity under the law of any of its residences.

In many States a policy favoring the protection of good faith requires the court to look at the appearance of incapacity, rather than actual incapacity, at the time the contract was executed. The Principles refer to the law of the defendant's residence to determine whether the defendant in fact had the capacity to enter into a contract, or whether it suffices that the defendant reasonably appeared to have that capacity. In online contracts, the ease with which the appearance of capacity may be simulated may render an appearance standard problematic; for mass-market agreements, the Principles address this concern by requiring the court to consider the sophistication of the nondrafting party. See § 202(3)(b)(i).

The rule in § 202(2)(b) deviates from that of the Hague Convention on Choice of Court Agreements, which looks to the law of State of the court seized (arts. 6(b), 9(b)). The Hague negotiators were unwilling to set out an autonomous rule; see Preliminary Draft Convention on Exclusive Choice of Court Agreements, Draft Report, Prelim Doc 25, ¶¶ 94, 109 (2004), available at [http://www.hcch.net/upload/wop/jdgm\\_pd25e.pdf](http://www.hcch.net/upload/wop/jdgm_pd25e.pdf). By contrast, § 202(2)(b) avoids forum-shopping opportunities by adopting the rule that capacity is determined under the law of the parties' residence

at the time the contract was concluded. This offers better protection to underage or otherwise vulnerable co-contractants (who are not the focus of the Hague Convention, which deals only with business-to-business contracts). In any event, capacity may also be subject to a mandatory rule, applicable under § 323 of the Principles.

*e. Multiple court-selection agreements involving the same parties.* The same parties may become involved in several disputes, and the location of only some of the disputes may be subject to a court-selection clause, or the parties may have several agreements, each choosing a different State's courts to govern all of their legal relations. In such cases, the problem of divergent choice-of-court provisions can often be solved by proper interpretation of the relevant provisions. For example, so-called "framework agreements" may provide a solution for all further contractual relationships between the parties. In other circumstances, the agreement executed last may be deemed to incorporate their present choice of court for all purposes. When the various contracts do not cover related economic transactions, the individual choice-of-court provisions will be honored, unless procedural rules (such as rules on setoffs and compulsory counterclaims) require consolidation.

If coordination is sought, the court with authority to coordinate under §§ 221-223 should be the first court seized with a part of the dispute, so long as it is designated in at least one of the parties' agreements. In disputes where coordination is sought, that court may choose to consolidate and hear the entire dispute, if it has subject-matter jurisdiction over all of the claims between the parties. If it does not have plenary authority over the subject matter, then it should weigh the advantages of honoring the parties' choice by facilitating cooperation against the efficiencies to be ob-

tained through consolidation in a court that does enjoy plenary authority (if there is such a court) (§ 222(4)(a)(i)).

*f. Multiple disputes involving multiple parties.* If multiple parties are engaged in related disputes in several fora, the court chosen in a choice-of-court agreement will be the coordination court in cases in which the party moving for coordination was bound by that agreement. In cases where the litigant who moves for coordination is not a party to the agreement, the court first seized will have coordination authority (§ 221(1)(b)). However, if that court decides to consolidate, the court-selection clause should be taken into account in determining the court where the consolidated case will be adjudicated (§ 222(4)).

**Illustration:**

2. Ruth and Helene have a worldwide copyright licensing agreement in which they designate the courts of Patria to resolve disputes between them. Helene sublicenses Bart to exploit the work in Xandia and Tertia. Ruth sues Helene in Patria, claiming that Helene has wrongfully sublicensed; Ruth also sues Bart in Xandia for copyright infringement and Helene sues Bart in Tertia for violating the terms of the agreement. Bart wishes to coordinate under the Principles.

Bart must move in Xandia because it is the court first seized with a dispute involving Bart. If the Xandian court decides to consolidate the case, it will take the terms of the agreement between Ruth and Helene into account in determining which court will hear the case.

*g. Court-selection clauses: mass-market agreements.* The Hague Convention on Choice of Court Agreements does not provide special rules to determine the validity of mass-

market agreements. The Principles do and subject them to scrutiny under the Principles' own autonomous standards. This is consistent with emerging norms for international contracts. See, e.g., UNIDROIT Principles of International Commercial Contracts 2004, arts. 2.1.19-2.1.22 (addressing contracting under standard terms and providing for unenforceability of terms that are “surprising” in light of their “content, language and presentation”). Section 202(3) provides guidance for determining when the choice, if contained in a mass-market agreement, will be honored. First, the clause must be and remain readily accessible; this protects the interest in notice. In addition, the court must be a reasonable choice, in light of the criteria set out in subsection (3)(b). Of these, the first two will be the most important. Because mass-market agreements can be problematic regardless of whether the parties are consumers or businesses, § 202(3) applies to both. Nonetheless, the general conditions set out in § 202(3)(b)(i) deserve special weight in consumer contracts.

### REPORTERS' NOTES

*1. Validity of choice-of-court agreements.* Several national laws might potentially determine whether the parties have properly agreed to select a forum. See, e.g., William J. Woodward, Jr., Finding the Contract in Contracts for Law, Forum and Arbitration, 2 Hastings Bus. L.J. 1 (2006). For agreements other than mass-market agreements, § 202(2) adopts the approach taken in the Hague Convention (see arts. 5(1), 6(a)), to designate the law of the State whose courts the agreement selected.

*2. Capacity.* Under the traditional rule, capacity was determined by a law other than that of the contract, usually the law of the contractant's residence, see, e.g., Restatement Second, Conflict of Laws (Second) § 198(2); Convention on Private International Law, with annexed Code of Private International Law (Bustamante Code) art. 176, Feb. 20, 1928, 86 L.N.T.S. 120, 254. It remains the law of many

States, see, e.g., Mario Giuliano and Paul Lagarde, Report on the Convention on the law applicable to contractual obligations (Rome I), art. 11, 1980 O.J. (C 282) 1, available at [http://www.rome-convention.org/instruments/i\\_rep\\_lagarde\\_en.htm](http://www.rome-convention.org/instruments/i_rep_lagarde_en.htm). On the question of whether appearance of capacity suffices, see, e.g., Bundesgesetz über das Internationale Privatrecht [IPRG], Loi fédérale sur le droit international privé [LDIP] [Federal Law on Private International Law] Dec. 18, 1987, SR 291, RS 291, arts. 34-36 (Switz.), available at <http://www.admin.ch/ch/d/sr/2/291.de.pdf> (in German), <http://www.admin.ch/ch/l/rs/2/291.fr.pdf> (in French) (hereinafter Swiss Law on Private International Law). On the appearance of capacity online see, e.g., Cartoon by Peter Steiner, *The New Yorker*, July 5, 1993, at 61: “On the Internet, nobody knows you’re a dog.”

3. *Mass-market agreements.* For mass-market agreements, § 202(3) supplies additional benchmarks for validity. The Principles posit that the clause will be accessible and that its terms will be available for subsequent reference. All of these factors assume some formalization of the agreement. If the agreement refers to or incorporates by reference some other document that contains a forum designation, the Principles require that the court-selection clause be readily accessible. See, e.g., *Specht v. Netscape Commc’ns Corp.*, 306 F.3d 17 (2d Cir. 2002) (declining to enforce arbitration clause in online contract when the clause was contained in another online document several “clicks” removed from the document viewed by the user, and when the clause neither was signaled to the user nor required the user’s specific assent). See also *Scarcella v. America Online*, 798 N.Y.S.2d 348 (N.Y. Civ. Ct. 2004) (not officially published), following *Licitra v. Gateway Inc.*, 734 N.Y.S.2d 389 (N.Y. Civ. Ct. 2001).

Those who want to be sure their court selection will be honored will presumably choose the courts in a forum that is convenient to the other side and connected to the dispute. Cf. *Joined Cases C-240/98 to 244/98, Océano Grupo Editorial SA v. Rocío Murciano Quintero*, 2000 E.C.R. I-4941, ¶¶ 24, 29-32 (holding that “where a jurisdiction clause is included, without being individually negotiated, in a contract between a consumer and a seller or supplier within the meaning of [Council Directive 93/13/EEC, 1993 O.J. (L 95) 29] and where it confers exclusive jurisdiction on a court in the territorial jurisdiction of which the seller or

supplier has his principal place of business, it must be regarded as unfair within the meaning of article 3 of the Directive in so far as it causes, contrary to the requirement of good faith, a significant imbalance in the parties' rights and obligations arising under the contract, to the detriment of the consumer," and going on to hold that the court first seized must determine this issue of its own motion).

4. *Multiple contracts with divergent choice-of-law clauses.* For a discussion of the situations involving this problem, see Mark A. Lemley, *Terms of Use*, 91 Minn. L. Rev. 459, 463 (2006).

5. *"Virtual" representation in cyberspace: online dispute resolution.* Because many mass-market agreements arise through online transactions, the parties are uniquely likely to have some facility with the Internet. As a result, the availability of online dispute resolution was added as a criterion that the court should consider in deciding whether the court selection should be honored.

6. *Arbitration.* Although these Principles do not formally apply to arbitration, they may be used by analogy in jurisdictions that do not have specific rules on the arbitrability of intellectual property disputes.

### **§ 203. Appearance by a Defendant Not Resident in the Forum**

**(1) A defendant submits to the authority of a court in which it proceeds on the merits without timely contesting jurisdiction.**

**(2) The defendant has the right to contest jurisdiction no later than the time of the first defense on the merits.**

**(3) If the defendant does not appear, the court should satisfy itself that the plaintiff's assertions of the basis of jurisdiction are reasonably supported. If they are, the court may enter judgment; the enforceability of the judgment in other States will be subject to scrutiny under § 402.**

**Comment:**

*a. Appearance jurisdiction.* This provision states the familiar rule that a party can forfeit objections to personal jurisdiction by filing a general appearance. This is true of both domestic personal-jurisdiction rules and of the limitations on personal jurisdiction imposed by these Principles. Thus, under § 203 (1) and (2), a party is deemed to submit to the court's authority if the party joins issue without contesting jurisdiction. Issue is joined when a defense on the merits is filed. If the other conditions of these Principles are met, the judgment is entitled to enforcement in other States, even if the rendering court would not otherwise have had authority over the appearing party.

*b. Distinguishing personal and subject-matter jurisdiction.* This provision applies only to waive personal jurisdiction. As a matter of domestic law, subject-matter jurisdiction usually cannot be waived. For example, in some judicial systems, disputes over the validity of registered rights are channeled to specific courts; these courts' primary authority cannot be avoided even if the holder of the registered right was willing to appear in other courts.

**Illustration:**

1. ACo, domiciled in Germany, sues BCo, domiciled in France, in a German court. It asks for a declaration that all B's European patents are invalid. B appears in the action.

B's appearance creates personal jurisdiction over B. However, it does not create subject-matter jurisdiction in the German court over non-German patents. These parties are bound by the Brussels Regulation, under which proceedings on the validity of patent

rights must take place in courts of the State in which, or for which, the rights are registered (art. 22(4)).

*c. Distinguishing appearance and consent.* As noted above, appearance by the defendant waives objections to personal jurisdiction. This is true regardless of whether the parties chose a court contractually. In the event that a party wants the action pursued in the court chosen by a contract valid under § 202, the appropriate action is to seek enforcement of the contract.

*d. Appearance contesting jurisdiction.* In most jurisdictions a defendant may simultaneously contest jurisdiction and defend on the merits. In many places, the defendant may then appeal an adverse jurisdictional finding at the same time that the merits are appealed. If the defendant wins the challenge to jurisdiction, no judgment will be entered (or, if one was, it will be vacated). If the defendant loses, the court will proceed with the case. To promote fairness, § 403(1) gives the enforcement court power to protect the defendant and the public interest in situations where the plaintiff engaged in fraud or the judgment conflicts strongly with fundamental fairness or the public policy of the State of the court where enforcement is sought.

*e. Preserving the right to appeal or collaterally challenge the assertion of jurisdiction in an enforcing court.* In order to preserve the issue of jurisdiction for direct appeal or for collateral challenge in the enforcement court, the defendant must timely contest jurisdiction. Under the Principles, this is no later than the time of the first defense on the merits. A problem arises when the forum's jurisdictional rules permit the assertion of adjudicatory authority in circumstances that are not recognized by the Principles or are considered insufficient under § 207 of the Principles. In theory, there is no point in objecting to the assertion of authority because the

claimant will lose. Nonetheless, if the defendant does not agree that the judgment should be considered enforceable under the Principles, an objection should be made to preserve the issue of jurisdiction for the enforcement court and to alert the other litigants that recognition and enforcement may be contested under § 403(2)(a).

*f. Default.* Courts must have the power to enter default judgments; a contrary rule would encourage nonappearance and deprive plaintiffs of the opportunity to resolve their disputes. Thus, § 203 permits the court to enter judgment despite nonappearance. However, it is not appropriate for a court that lacks adjudicatory authority to decide a case. Several safeguards are therefore supplied. Section 203(3) directs the court to scrutinize the plaintiff's assertions independently. Section 402 requires the enforcement court to inquire whether the rendering court had jurisdiction under the Principles and under the law of the State of the rendering court. Section 403(1)(c) gives the enforcement court power to deny enforcement if it finds that notice was deficient. Further, paragraphs (d) and (e) of § 403(1) protect the defendant and the public interest by providing grounds for nonenforcement in cases where the plaintiff engaged in fraud or the judgment conflicts strongly with fundamental fairness or public policy, and § 403(2)(a) gives the court discretionary authority to deny enforcement on jurisdictional grounds.

### REPORTERS' NOTES

*1. Appearance contesting jurisdiction.* This provision gives the defendant the right to contest jurisdiction. If the defendant loses, the basis of the defendant's objection may be reviewable in the enforcement court. However, the factual determinations of the rendering court bind the enforcement court, see § 403(3); see also the ALI Foreign Judgments Project, § 4(b)(1). This check is important to the acceptabil-

ity of a regime of international enforcement. In a system that lacks a highest court such as the United States Supreme Court or the European Court of Justice, reexamination by the enforcement court furthers other purposes. It ensures accuracy and promotes careful procedures and reasoned decisions by the rendering court (which has an incentive to protect the enforceability of its judgments). Finally, dual examination promotes dialogue among courts and thus more rapid development of legal precedents in the jurisdiction area—a matter of considerable importance during the time when international norms on multistate litigation are developing.

2. *Default.* Nothing in these Principles explicitly requires either court to scrutinize the merits of the plaintiff's case before entering or enforcing a default judgment. In some instances there is scrutiny of aspects of the judgment. See, e.g., Fed. R. Civ. P. 55(b)(2) (permitting hearings in cases where the plaintiff has not asked for a sum certain). Some jurisdictions also have rules that permit defendants to move to have the default set aside and take new evidence. See, e.g., Fed. R. Civ. P. 55(c) (permitting the setting aside of default judgments “[f]or good cause”); 60(b). See also *Zivilprozeßordnung* [ZPO] [civil procedure statute] Sept. 12, 1950, §§ 330-347, available at <http://bundesrecht.juris.de/bundesrecht/zpo/>, translated in *The Code of Civil Procedure Rules of the Federal Republic of Germany of January 30, 1877*, and the *Introductory Act for the Code of Civil Procedure Rules of January 30, 1877*, as of January 1988, §§ 330-347 (Simon L. Goren trans., 1990); Alphonse Kohl, *Ordinary Proceedings in First Instance: Romanist Legal Systems*, in *16 International Encyclopedia of Comparative Law* § 6-109 (Mauro Cappelletti ed., 1984) (describing Benelux, French, and Italian procedure). Because the resolution of intellectual property disputes can have important public consequences (for example, the publication of material of great interest may be enjoined), there are strong arguments for requiring the rendering court to look at the merits before entering a default judgment and for imposing a duty on the enforcement court to make sure this was done. But there are problems with that position. It may impose new procedures on States whose courts adopt these Principles, it encourages defendants to bypass the rendering court, and it opens the door to relitigation. Cf. *Soc’y of Lloyd’s v. Ashenden*, 233 F.3d 473, 477 (7th Cir. 2000). Nonetheless, because the Principles use

other safeguards to protect defaulting defendants, the Principles do not permit defaulting parties to relitigate the merits; see §§ 402-403.

**§ 204. Infringement Activity by a Defendant Not Resident in the Forum**

**(1) A person may be sued in any State in which that person has substantially acted, or taken substantial preparatory acts, to initiate or to further an alleged infringement. The court's jurisdiction extends to claims respecting all injuries arising out of the conduct within the State that initiates or furthers the alleged infringement, wherever the injuries occur.**

**(2) A person may be sued in any State in which its activities give rise to an infringement claim, if it reasonably can be seen as having directed those activities to that State. The court's jurisdiction extends to claims respecting injuries occurring in that State.**

**(3) A person who cannot be sued in a WTO-member State through the application of §§ 201-204(1) may be sued in any State in which its activities give rise to an infringement claim if:**

**(a) it reasonably can be seen as having directed those activities to that State, and**

**(b) it solicits or maintains contacts, business, or an audience in that State on a regular basis, whether or not such activity initiates or furthers the infringing activity.**

**The court's jurisdiction extends to claims respecting injuries arising out of conduct outside the**

**State that relates to the alleged infringement in the State, wherever the injuries occur.**

**Comment:**

*a. Infringement actions generally.* This provision seeks both to restate the traditional criteria for jurisdiction over claims for the tort of infringement (place from which the harmful conduct originated; place of impact of the injury), and to adapt the traditional criteria to the digital environment. It does so without having the tests propounded turn on technologically specific factors, such as the “interactivity” of a website. It applies to violations of any intellectual property right covered by these Principles, including moral rights and claims of secondary liability.

Section 204(1) addresses the case in which the forum is a staging area for the nonresident defendant’s activities. The provision creates authority to hear all claims arising out of these activities, without geographic limitation. Thus, a nonresident defendant who operates a website in a forum on which it has placed infringing material, or who maintains broadcast facilities from which it makes infringing transmissions, is amenable to suit in that forum for damages arising out of the worldwide communication of the infringement.

Section 204(2) deals with nonresident defendants whose connection to the forum is somewhat more attenuated. It covers the situation in which the nonresident defendant may not have regular contacts with the forum State, but has intentionally directed an infringement into the forum State from outside and causes harm. In such cases, the scope of jurisdiction is limited; it reaches only injuries sustained in the forum State.

Section 204(3) confronts potential forum-shopping by defendants who situate themselves and their businesses in

States whose procedural and substantive guarantees are inconsistent with international norms. The Principles use membership in a WTO State as a proxy for procedural and substantive fairness. Thus, if the defendant is not subject to the authority of a court in a WTO Member based on its residence (§ 201), or consent (§§ 202, 203), or its substantial activities in furtherance of the alleged infringement (§ 204(1)), the provision permits a plaintiff to sue in a State to which the defendant has directed infringing activities, and with which it has regular contacts. In such cases, the scope of jurisdiction extends to all infringement claims (no matter where they impact) that arise out of the conduct out of State that led to the alleged in-State infringement.

*b. “Substantially acted.”* Section 204(1) recognizes that an infringement may originate in a State other than the one in which the defendant resides or has its principal place of business (although such a State remains competent as well). Examples of substantial activity, in addition to those discussed in Comment *a*, include maintaining a manufacturing or distribution center for patent-infringing components, or a factory that silkscreens infringing trademarks onto T-shirts.

*c. “Directs activity.”* In lieu of the commonly used term “targets,” subsections (2) and (3) substitute the concept that the defendant “directs” the alleged infringement into the forum. The connotation of “directs” is less predatory than “targets,” but is intended to retain an element of intentionality. The inquiry under subsections (2) and (3) would be whether it is reasonable to conclude from the defendant’s behavior that defendant sought to enjoy the benefits of engaging with the forum. This includes both commercial and noncommercial contacts, such as offers to distribute infringing goods for free.

Matters to be considered include such familiar indicia as shipping goods directly into the forum for sale there; filling orders from the forum; or selling to third parties, knowing the goods will be incorporated into products and distributed in the forum. They also include efforts taken to customize materials for communication to, or use in, the jurisdiction, such as developing content and advertisements of interest to an audience in the forum, or use of the forum's language, currency, or units for measuring size and volume. These factors will have differing significance in different cases. For example, English, as *lingua franca*, may not be determinative of directing activity to the United Kingdom.

Indicia such as language may be particularly probative with respect to the Internet. For example, a website in Portuguese would seem most likely directed towards Portugal and Brazil, as well as to former colonies of Portugal in Africa and Asia. However, a single consideration, such as language, may not always suffice to identify the States to which a communication may be "directed." Thus, unless there are other factors present, such as currency, it might not be appropriate to deem the Portuguese-language website to be directed to Portuguese diasporas in non-Portuguese-speaking countries.

Although the Principles do not include a safe harbor, defendant may also engage in conduct from which a court may infer that there was insufficient directing activity. For example, jurisdiction may be lacking when the defendant:

- refuses to ship tangible goods to the State;
- blocks access to websites by users in the State or employs other technological means, such as geolocator software, to screen out users from the State;
- where practical, avoids the languages and currencies of the State;

- refuses payments made through credit or debit cards of banks located in the State;
- conducts business on the Internet through local subsidiaries, each with its own locally registered domain name;
- maintains a home page that requires the viewer to click on a State (other than the forum State) from which she is accessing the site;
- disclaims intent to transact with residents of the State; or
- permits downloads only to parties to whom activation keys have been issued.

Some of these steps may not, standing alone, suffice to avoid the forum. The court should determine whether these techniques, alone or in combination, are reasonable ways for the defendant to try to avoid the forum. Reasonableness should be judged in light of the nature of the defendant's activities. Thus, it may be easier to avoid a jurisdiction when the goods in which one trades are tangible. Reasonableness should also be judged by the sophistication of the parties, particularly with respect to intangible goods. Defendants with substantial assets might be expected to include more technologically sophisticated protocols or elaborate corporate structures to prevent unwanted audiences from accessing or interacting with a specific firm's website; defendants with fewer assets should not be expected to use these techniques. In any event, reasonableness should not require defendants to anticipate every technology that may become available to allow users to access the site. It also should not require blocking every conceivable means a forum user might employ to circumvent the website operator's forum-avoidance measures. For example, if a website operator includes a translation program, it may well be deemed

amenable to suit in the jurisdictions where the program's languages are spoken. However, if a user employs the user's own translator program (or one acquired elsewhere), only the languages of the website should be taken into account in determining whether the defendant was seeking to initiate or maintain contact with the forum.

A court should also take account of the employment of technical filtering measures ordered by technical bodies, or other protective schemes adopted by industry bodies. The Principles should be applicable in diverse legal environments, including those where regulatory bodies intervene and those where industry regulates itself by adopting voluntary commitments. It is not necessary that the defendant have the intention to avoid acting. For example, local law may require actors on the Internet to make their sites or their goods inaccessible to local residents. Taking the actions directed by law should insulate the defendant from jurisdiction, even in cases where the defendant would have preferred to act in the State.

**Illustrations:**

1. A, a resident of Pakistan, runs an Urdu-language website offering Urdu-language popular music. Prices are in British pounds and the site hosts advertisements for local businesses in Bradford, England. B, a resident of the UK, is the composer of some of the music offered on A's website. B sues A for copyright infringement in the UK.

A is amenable to suit in England. Although Urdu is one of the principal languages of Pakistan, the site's use of British pounds and ads of local interest to the Pakistani diasporas in the UK supports jurisdiction in England on a "directing" basis.

2. A, a Patrian, holds patent registrations for its product in Patria, Xandia and Tertia. B, a Xandian, makes a patent-infringing component which it knows that C, another Xandian, will incorporate into widgets regularly shipped to and sold in Tertia.

A may bring a patent-infringement claim against both B and C in Tertia. Under this scenario, A can also sue B and C in Xandia, where both “substantially acted.” While the Tertian court would be limited to infringements occurring in Tertia, a Xandian court could entertain Xandian and Tertian infringements.

3. Freeforall.com seeks to avoid being haled into court in Xandia. Its website eschews the Xandian language, currency, and content. Nonetheless it still carries content that is likely to attract Xandian users. To avoid amenability to suit, Freeforall.com installs a filter that blocks access from Xandian Internet-connection services. It also requires its subscribers to provide credit-card and residence information. Xandian residents are automatically excluded.

Freeforall.com should be deemed to have avoided acting in or directing activity toward Xandia. Although some adept Xandian users might succeed in evading the filters, Freeforall.com, as a foreign actor, should not be obliged to ensure watertight exclusion of the forum’s residents, so long as its efforts are reasonable.

4. Freeforall.com seeks to avoid being haled into court outside Freedonia. Its website is accessible throughout the world, but Freeforall.com’s homepage states that access will be granted only to those users who can show that they have a Freedonian postal code. The homepage asks users to type in their Freedonian postal code. The homepage also lists the address, with

postal code, of Freeforall.com's Freedomian headquarters. Users who type in Freeforall.com's own postal code will be granted access to the site.

Freeforall.com's screening device should not be deemed a sufficient avoidance of forum activity. The screening device is so easily eluded as to be pretextual. Better devices might include ones that looked at the IP address of the user, required off-line identification or use of geographically identified credit cards.

*d. Section 204(3): expanded specific jurisdiction.* Section 204(3) expands the concept of specific jurisdiction by giving the court authority to adjudicate the full geographic extent of the harm caused by the acts giving rise to the local infringement. Section 204(3) does not, however, give the court authority over any claim unrelated to the infringing act. Thus, it does not confer true "general" jurisdiction. Like § 204(2), it relies on the concept of directing. But because it expands the court's reach, it imposes extra conditions on the defendant's amenability to suit. First, the plaintiff cannot rely on § 204(3) when the defendant is amenable to suit in a WTO State. The other requirements ensure that the court is a fair one because the defendant has continuous contacts with the forum. In other words, this provision furnishes the plaintiff who would otherwise have no fair forum in which to assert worldwide claims other places where it may be able to sue.

*e. "Solicits or maintains contacts, business, or an audience in the State on a regular basis."* "Solicits or maintains" implies more than mere accessibility. Thus, the operator of a purely "passive" website would not be amenable to jurisdiction solely on the basis that the website can be seen in the forum. Second, the requirement that the forum-related activity occur "on a regular basis" screens out isolated or

sporadic contacts with the forum. This limit is less onerous than the “systematic and continuous” contacts required under U.S. law for general “doing business” jurisdiction. It is similar to the standard in long-arm statutes that assert jurisdiction over a nonresident for a tort outside the state that has effects inside the state, but only when the actor’s conduct demonstrates that the forum is a focus of persistent activities. This provision is aimed at assuring that the defendant is obtaining benefits from the forum; it does not require that the “regular” contacts, business, or audience all be related to the plaintiff’s claims.

**Illustration:**

5. AlexanderCorp., a resident of Xenobia, distributes pirated motion pictures from its website, which is located in Xandia. Both Xenobia and Xandia are small island nations that are not members of the WTO. AlexanderCorp.’s customers are concentrated in large developed WTO countries, including Patria. OliverInc., a motion-picture company resident in Patria, wishes to bring suit against AlexanderCorp. for worldwide infringements.

OliverInc. may bring suit in Xenobia under § 201 or in Xandia under § 204(1) for worldwide claims. However, it may be concerned about the fair and timely adjudication of its dispute. Under § 204(2), Oliver Inc. could sue in any State to which AlexanderCorp. distributed copies of its films, but each court’s reach would be limited to local harms. Under § 204(3), Oliver Inc. could sue in any forum (including Patria) to which AlexanderCorp. intentionally sent motion pictures and with which it has regular contacts, whether or not these contacts are related to its film-distribution business. Because AlexanderCorp.’s contacts with any State cho-

sen by OliverInc. must be persistent, the court for adjudication will be one that is fair to AlexanderCorp.

*f. Relationship to § 212 (supplemental claims).* Section 204 deals only with infringement claims. Other claims arising from the same transaction or occurrence may be asserted under § 212, but only if the jurisdiction permits the assertion of supplemental claims. However, these claims are subject to the same geographic limitations.

**Illustration:**

6. Freeforall.com, a Freedonian website, is found to be directing activity to Xandia. A sues Freeforall.com in Xandia for utilizing its trademarks on the website, claiming damages on account of infringements in Xandia and elsewhere. A also claims that Freeforall.com is engaged in false advertising on a worldwide basis.

This is not a case in which the defendant has “substantially acted” in Xandia under § 204(1). Under § 204(2), the court may hear the Xandian trademark claims, but not those arising elsewhere. If Xandia permits the assertion of transactionally related supplemental claims, A may use § 212 to add claims for false advertising in Xandia.

If the claim can be brought under § 204(3), then A may assert all trademark-infringement claims arising from the activity that resulted in the trademark infringements in Xandia. If Xandia permits supplemental claims, then under § 212, A may also add worldwide false-advertising claims.

*g. Multiple parties and the relationship to § 206 and §§ 221-223.* Facilitation of efficient adjudication is an impor-

tant goal of the Principles. In some cases, the broad scope of authority afforded by §§ 201, 204(1), and 204(3) will be sufficient to allow multiple plaintiffs injured by the same activity to join in a single suit and assert all of their claims. In some cases, however, a plaintiff (or a group of plaintiffs) may wish to join multiple defendants, but such joinder will not be possible under these provisions because the potential defendants are resident or have substantially acted in different States (§§ 201 and 204(1)), or only some of the defendants are located in States that meet the conditions of § 204(3). Where the defendants have engaged in concerted or parallel activity, § 206 provides an alternative court. In other cases, coordinated adjudication will be available.

### REPORTERS' NOTES

*1. Directing.* Although it is recognized that the Principles will be of major interest in Internet disputes, the provision is drafted to avoid technology-specificity and is based on traditional concepts of personal jurisdiction. By contrast, many of the courts that have considered Internet cases have adopted the test enunciated in *Zippo Manufacturing Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119 (W.D. Pa. 1997), which bases amenability to suit on the interactivity of the website:

At one end of the spectrum are situations where a defendant clearly does business over the Internet. If the defendant enters into contracts with residents of a foreign jurisdiction that involve the knowing and repeated transmission of computer files over the Internet, personal jurisdiction is proper. At the opposite end are situations where a defendant has simply posted information on an Internet Web site which is accessible to users in foreign jurisdictions. A passive Web site that does little more than make information available to those who are interested in it is not grounds for the exercise [sic] personal jurisdiction. The middle ground is occupied by interactive Web sites where a user can exchange information with the host computer. In these cases, the exer-

cise of jurisdiction is determined by examining the level of interactivity and commercial nature of the exchange of information that occurs on the Web site.

Id. at 1124 (citations omitted). However, courts have begun to express doubt that the interactivity of a site adequately reflects the intensity of a defendant's actual connection to the forum. They argue that the inquiry should instead focus on the relationship of the material on the site to the forum. For example, in *ALS Scan, Inc. v. Digital Service Consultants, Inc.*, 293 F.3d 707 (4th Cir. 2002), the court underscored the following considerations: whether the defendant "(1) directs electronic activity into the State, (2) with the manifested intent of engaging in business or other interactions within the State, and (3) that activity creates, in a person within the State, a potential cause of action cognizable in the State's courts." Id. at 714. See also *Hy Cite Corp. v. Badbusinessbureau.com, L.L.C.*, 297 F. Supp. 2d 1154 (W.D. Wisc. 2004).

The courts that have departed from *Zippo* rely on factors additional to the interactivity of the website. See, e.g., *Revell v. Lidov*, 317 F.3d 467, 473 (5th Cir. 2002) (refusing to assert jurisdiction over an Internet defamation claim in Texas when the transmission at issue did not refer to Texas activity and "was not directed at Texas readers as distinguished from readers in other States;" contrasting *Calder v. Jones*, 465 U.S. 783 (1984), where the publication "contained descriptions of the California activities of the plaintiff, drew upon California sources, and found its largest audience in California."). See also *Pavlovich v. Superior Court*, 58 P.3d 2 (Cal. 2002) (insufficient evidence of contact with the forum to exercise authority over out-of-state website operator in a trade-secret case); *Young v. New Haven Advocate*, 315 F.3d 256, 264 (4th Cir. 2002) (refusing to exercise jurisdiction in Virginia over a Connecticut defendant who allegedly posted defamatory material because there was no "manifest intent" to target a Virginia audience); *Best Van Lines, Inc. v. Walker*, No. 03 Civ. 6585 (GEL), 2004 WL 964009 (S.D.N.Y. May 5, 2004) (relying on the language of N.Y. CPLR § 302 to determine that the operator of a gripe site is not amenable to jurisdiction in New York).

Section 204(3) is based in part on N.Y. C.P.L.R. § 302(a)-(3) (McKinney2006), which provides in relevant part:

[A] court may exercise personal jurisdiction over any non-domiciliary, or his executor or administrator, who in person or through an agent . . . commits a tortious act without the state causing injury to person or property within the state . . . if he:

(i) regularly does or solicits business, or engages in any other persistent course of conduct, or derives substantial revenue from goods used or consumed or services rendered, in the state, or

(ii) expects or should reasonably expect the act to have consequences in the state and derives substantial revenue from interstate or international commerce . . . .

See also *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297 (1980) (holding that the test for jurisdiction should “give[] a degree of predictability to the legal system that allows potential defendants to structure their primary conduct with some minimum assurance as to where that conduct will and will not render them liable to suit”). But see *Lewis v. King*, [2004] EWCA (Civ) 1329 (rejecting the notion that jurisdictions can be distinguished, for *forum non conveniens* purposes, on the basis of the defendant’s intent to target a particular audience).

Under the standard enunciated here, the defendant must be engaged in regular conduct, but the conduct can be legal; there is no need to show its wrongfulness as a prerequisite to obtaining jurisdiction. See *Yahoo! Inc. v. La Ligue Contre Le Racisme et L’Antisemitisme*, 433 F.3d 1199, 1209 (9th Cir. 2006) (en banc). Further, since the goal is to make sure that the defendant is vulnerable to suits only in fora in which it has some ongoing affiliation, is it not necessary to demonstrate that the regular conduct is related to the activity giving rise to the infringement.

By contrast, the defendant may avoid amenability to suit in a particular jurisdiction by making good-faith efforts to screen out access, for example, by requiring users to identify their State of residence and excluding users from countries to which the defendant does not wish to communicate. Cf. *Torsten Bettinger & Dorothee Thum, Territorial Trademark Rights in the Global Village—International Jurisdiction, Choice of Law and Substantive Law for Trademark Disputes on the*

Internet—Part Two, 31 Int'l Rev. Intell. Prop. & Competition L. 285 (2000); George Philip Krog, The Brussels I Regulation Article 15.1c): Where to Are Commercial or Professional Activities Directed Through the Internet, in Yulex 2004, at 117 (Georg Philip Krog & Anne Gunn B. Bekken eds.), available at [http://www.jus.uio.no/iri/forskning/yulex/Yulex\\_2004.pdf](http://www.jus.uio.no/iri/forskning/yulex/Yulex_2004.pdf). Technological measures that make it possible to limit Internet communications to particular countries are already in development or actual use. See, e.g., Tom Zeller, Jr., Times Withholds Web Article in Britain, New York Times, Aug. 29, 2006, at C7 (adapting technology developed for targeted advertising in order to screen out British readers of article containing content prohibited in Britain). These screening methods make it easier for defendants to structure their affairs to avoid amenability to jurisdiction in locations they prefer to avoid. See, e.g., Jack Goldsmith & Tim Wu, Who Controls the Internet? Illusions of a Borderless World (2006); Michael A. Geist, Is There a There There? Toward Greater Certainty for Internet Jurisdiction, 16 Berkeley Tech. L.J. 1345, 1393-401 (2001); Jack L. Goldsmith, Against Cyberanarchy, 65 U. Chi. L. Rev. 1199, 1213-16 (1998).

Illustration 2 is loosely based on *Gray v. American Radiator & Standard Sanitary Corp.*, 176 N.E.2d 761 (Ill. 1961). Illustration 4 is based on *Twentieth Century Fox Film Corp. v. iCraveTV*, 53 U.S.P.Q.2d 1831 (W.D.Pa. 2000). The technological measures listed derive from cases such as *Ameripay, LLC v. Ameripay Payroll, Ltd.*, 334 F. Supp. 2d 629 (D.N.J. 2004). The WIPO Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications has also suggested various criteria for associating the use of a trademark on the Internet with specific jurisdictions, see, e.g., Study Concerning the Use of Trademarks on the Internet, SCT/2/9 (1999), and subsequent documents.

2. *Consistency with due-process and fairness considerations.* It could be argued that the provisions in § 204 violate U.S. due-process norms, as articulated by the Supreme Court. For example, in *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286 (1980), the combination of place of impact and foreseeability of remote harm did not meet due-process standards. These Principles are, however, distinguishable from such cases. Section 204's focus is on the activities of the defendant and not, as in *World-Wide Volkswagen*, on the "unilateral activity of

those who claim some relationship with a nonresident defendant . . . .” Id. at 298 (quoting *Hanson v. Denckla*, 357 U.S. 235, 253 (1958)). Recall that, in fact, the *World-Wide Volkswagen* Court specifically acknowledged that the manufacturer was amenable to suit in the forum; unlike the local car dealership, the manufacturer sought “to serve[,] directly or indirectly, the market for its products in other States . . . .” Id. at 297. Similarly, these Principles would make amenable to suit defendants who seek directly and regularly to serve a foreign market. Defendants may structure their affairs to avoid a forum by taking the sorts of reasonable steps suggested by Comment *c*. See, e.g., Michael Geist, E-Borders Loom, For Better or Worse, <http://lists.essential.org/pipermail/random-bits/2001-June/000623.html> (last visited Jan. 15, 2007). Perfect filtering is not required, so long as a reasonable effort was made to exclude unwanted foreign markets.

3. *Scope of court’s authority, § 204(1)*. This approach is a jurisdictional analog to the “root copy” cases, in which courts have taken account of worldwide damage if the initial act of infringement took place in the United States. See, e.g., *Sheldon v. Metro-Goldwyn Pictures, Corp.*, 106 F.2d 45 (2d Cir. 1939), *aff’d*, 309 U.S. 390 (1940) (distribution in Canada of U.S. motion picture held to infringe plaintiff’s play); *Update Art, Inc. v. Modiin Publ’g, Ltd.*, 843 F.2d 67 (2d Cir. 1988) (publication in Israel of photograph of poster; initial copy of photograph allegedly made in United States and sent to Israel for further copying and distribution); *Famous Music Corp. v. Seeco Records, Inc.*, 201 F. Supp. 560 (S.D.N.Y. 1961) (pirate records sold in Europe allegedly made from illicit U.S. master tape); see also *Fun-Damental Too, Ltd. v. Gemmy Indus. Corp.*, 41 U.S.P.Q.2d 1427, 1433 (S.D.N.Y. 1996) (dismissing copyright-infringement claim because plaintiff “failed to allege an infringement within the United States that led to extraterritorial infringement”). Unlike these cases, however, the assertion of jurisdiction would not lead to the application of the forum’s law to the worldwide infringements. See § 301.

4. *Scope of court’s authority, § 204(2)*. This provision is consistent with the approach taken in *Dow Jones & Co. Inc. v. Gutnick* (2002) 210 C.L.R. 575 (Austl.), where the court was willing to assert jurisdiction over a website-based defamation claim against a U.S. publisher when the resident plaintiff limited his claims to harm to

reputation incurred in Victoria through the Victorian accessibility of defendant's website edition of its newspaper. Case C-68/93, *Shevill v. Presse Alliance S.A.*, 1995 E.C.R. I-415 supplies another example. In that case, the European Court of Justice held that the courts of each Contracting State where a defamatory publication was received and where plaintiff was injured were limited to awarding compensatory damages for the injury sustained within their own borders. *Id.* ¶ 33. See also *Panavision Int'l, L.P. v. Toepfen*, 141 F.3d 1316, 1321 (9th Cir.1998) “[P]ersonal jurisdiction can be based upon: ‘(1) intentional actions (2) expressly aimed at the forum state (3) causing harm, the brunt of which is suffered—and which the defendant knows is likely to be suffered—in the forum state.’” (citing *Core-Vent Corp. v. Nobel Indus. AB*, 11 F.3d 1482, 1486 (9th Cir. 1993)); practice at the borders of the United States, 19 U.S.C. § 1337; and the exclusion procedures envisioned by the TRIPS Agreement, arts. 51-60; Swiss Law on Private International Law art. 133(2); ALI/UNIDROIT Principles of Transnational Civil Procedure, Rule 4.2.4.2 (jurisdiction over a defendant who “[c]ommitted tortious conduct in the forum state, or conduct having direct effect in the forum state, when the proceeding concerns such conduct”). Like the ALI/UNIDROIT Principles, moreover, jurisdiction based on § 204(2) would be limited to claims concerning acts impacting on the forum State.

5. *Scope of court's authority, § 204(3)*. This provision responds to the concern that the defendant's residence may be an “information haven.” If so, there may be little point in litigating in the one court that is otherwise competent to hear the entire claim, and the plaintiff will have to seek redress seriatim, by resort to as many national courts as there are countries of receipt. See Jane C. Ginsburg, *Private International Law Aspects of the Protection of Works and Objects of Related Rights Transmitted Through Digital Networks* 18-19 (WIPO Doc. No. GCPIC/2, 1998), available at [http://www.wipo.int/documents/en/meetings/1998/gcpic/doc/gcpic\\_2.doc](http://www.wipo.int/documents/en/meetings/1998/gcpic/doc/gcpic_2.doc); Catherine Kessedjian, *Private International Law Aspects of Cyberspace: Global Communication, Universal Jurisdiction?*, paper presented at ASIL/NVIL Fourth Hague Joint Conference on July 5, 1997, ¶ 5.1; Gabrielle Kaufmann-Kohler, *Internet: Mondialisation de la communication—mondialisation de la résolution des litiges?*, in *Internet: Which Court Decides? Which Law*

Applies? Quel tribunal décide? Quel droit s'applique? 89, 115-18 (Katharina Boele-Woelki & Catherine Kessedjian eds., 1998).

In light of this problem, the French Conseil d'État, in a study of legal issues arising out of digital networks, concluded that a national court, additional to that of the country of origin of the infringement (a country that may well be a "paradis numérique" ["digital haven"]) should be competent to remedy worldwide damage. The study presumed that court would be the court of plaintiff's residence or principal place of business, and it should have general jurisdiction to hear the entirety of the claim. Conseil d'État (Fr.), *Internet et les réseaux numériques* 151 (1998). This approach was considered and proposed in earlier drafts. Thus, this section previously provided:

A person may be sued in the courts of any State in which its activities have a substantial effect, if it has directed those activities to that State and solicits or maintains contacts, business, or an audience in that State on a regular basis. The court's jurisdiction extends to claims respecting injuries occurring in that State. However, a plaintiff that has its residence in that State may in addition assert claims respecting injuries arising out of the conduct outside the State that led to the alleged infringement in the State, wherever the injuries occur.

The current draft takes a different approach, one inspired by the work of the Max Planck Institute. Concerns were raised that the prior antidote to defendant's forum-shopping was poorly tailored to the problem because its application did not depend on a demonstration that the defendant was behaving opportunistically. Further, it was thought that the provision gave plaintiffs too great a choice of friendly fora.

6. *Underlying choice-of-law considerations.* A concern that has animated Internet activists is that rules permitting the exercise of jurisdiction over remote actors will lead to the application of the "wrong" (or an unforeseeable) law. See, e.g., James Love, *Hague Treaty on Jurisdiction, What Will It Do?*, <http://legalminds.lp.findlaw.com/list/info-policy-notes/msg00111.html> ("regarding the Hague treaty and copyright and fair use on the Internet, what national laws would apply if I download an article, data, music or software from a European web site,

to my US based computer, and make an unauthorized use, for teaching, reverse engineering, commentary, parody or some other use that would be fair use in the US, but possibly not fair use in Europe[?] . . . Could I be sued in Europe for violating the European copyright laws? Would a judgment be collected against me in the USA?”); Cherie Dawson, Note, Creating Borders on the Internet: Free Speech, The United States, and International Jurisdiction, 44 Va. J. Int'l L. 637, 639 (2004); Nathan Garnett, Comment, Dow Jones & Co. v. Gutnick: Will Australia's Long Jurisdictional Reach Chill Internet Speech World-Wide, 13 Pac. Rim L. & Pol'y J. 61, 68 (2004). That danger is considerably attenuated under these Principles, however. First, in many States (such as the United States), the proposed bases of adjudicatory authority do not extend to the maximum allowable. (In the United States, for example, the provisions do not extend to the constitutional limit in all cases.) Second, the Principles clearly distinguish choice of forum and choice of law; see § 103(1). Moreover, Chapter II sets out specific rules regarding applicable law. Cf. Linda J. Silberman, Shaffer v. Heitner: The End of an Era, 53 N.Y.U.L. Rev. 33 (1978) (suggesting that choice-of-law rules can assuage concerns over long-arm jurisdiction).

### **§ 205. Agreements Pertaining to Intellectual Property Rights**

**A person may be sued in a State with respect to any claim alleging the breach of an agreement transferring or licensing intellectual property rights for exploitation in that State. When this section affords the sole basis of jurisdiction, the defendant may be sued only with respect to those intellectual property rights provided by that State and related to the agreement.**

#### **Comment:**

*a. Scope of provision.* A court applying this provision should examine whether the complaint raises contract issues. If it does, then the court should deem the jurisdiction

whose rights are in issue an appropriate place for the litigation.

**Illustration:**

1. GeorgeCo. holds Xandian and Patrian patent rights in a procedure for making widgets and licenses the patent to RobertInc., a Tertian widget maker with plants in Xandia and Patria. GeorgeCo. claims that RobertInc. has misrepresented the extent of its use and has not paid adequate royalties. It brings suit in Xandia and Patria, demanding an accounting.

Under § 205, each State has jurisdiction over RobertCo. to order an accounting. The advantage of allowing the suits to be heard in the States where the widgets are manufactured is that a local court is best situated to discover the evidence necessary to determine the extent of RobertCo.'s use. Either of the parties could seek to simplify the litigation by, for example, moving for cooperative adjudication pursuant to §§ 221-223.

**§ 206. Personal Jurisdiction over Multiple Defendants**

**(1) A plaintiff bringing an action against a person in a State in which that person is resident may also proceed in that State against one or more nonresident defendants if the claims against the resident defendant and such other defendants are so closely connected that they should be adjudicated together to avoid a risk of inconsistent judgments, and if:**

**(a) there is a substantial, direct, and foreseeable connection between the forum's**

**intellectual property rights at issue and each nonresident defendant; or**

**(b) as between the forum and the States in which the added defendants are resident, there is no forum that is more closely related to the entire dispute.**

**(2) There is a risk of inconsistent judgments if it appears that the ensuing judgments:**

**(a) would impose redundant liability;**

**(b) would conflict in that the judgment in one case would undermine the judgment in another case; or**

**(c) would conflict in that a party would not be able to conform its behavior to both judgments.**

**(3) Subsection (1) does not apply to a codefendant invoking an exclusive choice-of-court agreement with the plaintiff that conforms with § 202.**

**(4) If an action is brought in a State on the basis of this section, then that court has jurisdiction with respect to injuries, wherever occurring, that arise out of the activities that allegedly create the risk of inconsistent judgments.**

**Comment:**

*a. Consolidation of parties.* This section expands the personal jurisdiction of the courts in a State in which one defendant is resident. Such expansion is warranted when it avoids the risk of inconsistent judgments. Consolidation of claims would be of little practical value if the only forum in which all claims could be brought were an “intellectual property ha-

ven.” Accordingly, this section expands the bases of personal jurisdiction to permit multi-defendant cases to be litigated in the courts of any State in which one of them is resident. So long as one of these States is not a haven, the consolidated claims can be asserted there.

*b. Relation to § 204.* Both § 204 and § 206 expand the scope of specific jurisdiction. They do so in different ways. Under § 204(3), an action alleging worldwide harm may sometimes be brought in a State to which infringements are directed. Under §206, the focus is on the relationship between defendants and between possible outcomes. In the case of a close enough relationship between the various defendants and the litigation, the forum where one defendant is resident has jurisdiction over all defendants for all claims transactionally related to the resident defendant’s activity.

**Illustration:**

1. Medico, a Patrian publisher of medical journals, is suing LibePat, a Patrian medical library for utilizing the Internet to make unauthorized document deliveries to clients in Patria. Medico asserts claims for copyright infringement resulting from deliveries of documents to Patria. It also seeks to add claims for copyright infringement based on distributions LibePat is making in Xandia and Tertia. Medico discovers that LibePat is part of a consortium of medical libraries that, together, offers one-stop shopping: they make medical documents originating in any of their collections available worldwide. Medico would like to add worldwide claims against other members of the consortium: LibeX, which is located in Xandia, and LibeT, which is located in Tertia. All consortium participants are located in WTO States.

Under § 201, Medico could bring suit in Patria against the resident defendant LibePat for the full territorial range of its activities, including its distributions to Xandia and Tertia. However, under § 204, nonresident defendants LibeX and LibeT could be sued in Patria only with respect to copies sent to Patria. By contrast, if jurisdiction over LibeX and LibeT can be obtained via § 206, Medico could assert all its claims against all defendants in Patria. Thus, the entire dispute could proceed in a single court. In order to utilize § 206, Medico would be required to demonstrate two elements. First, the dispute must present a risk of inconsistent judgments. This requirement is most likely to be met when the defendants are acting in concert or in parallel. Second, there must be sufficient connection between LibeX, LibeT, and Patria to meet the conditions set out in § 206(1)(a) or (b).

*c. Inconsistent judgments.* Because intangibles can be used nonrivalrously, this term is particularly difficult to apply to intellectual property. The more broadly the term is construed, the greater the capacity of the judicial system to handle international disputes efficiently and to provide a court in which conflicting national policies can be reconciled. However, a broad provision would extend a court's authority to litigants who are tenuously connected to the forum. For that reason, the term is to be construed narrowly.

It is envisioned that cases taking advantage of this provision will be mainly cases involving cross-border transmissions (such as Internet cases), where the activity falls below the level necessary to assert jurisdiction under § 204. These cases are particularly problematic because piecemeal adjudication could leave the parties uncertain about the legality of their activities in cyberspace. Moreover, the judgment of

one court could be used to trump the social policies of another jurisdiction. Nonetheless, the provision is drafted in technologically neutral language.

The following Illustrations demonstrate the different kinds of inconsistencies that may arise if the litigation proceeds piecemeal.

**Illustrations:**

2. A, a Patrian resident, streams television signals from Patria over the Internet without authorization. A chooses the materials to be streamed and has subcontracted maintenance of its Freedonian servers to an outside technician, F, a Freedonian. A Patrian television station sues A in Patria for copyright infringement and seeks to join F.

If F were not joined under § 206 and instead were sued separately in Freedonia, it is possible that each court would apply its own State's law, and that the Patrian court would levy damages on A because the transmissions were received in Patria, while the Freedonian court would levy damages on F, based on the same transmissions, because they were uploaded from Freedonia. The result would be *redundant liability* for the entity (A+F) as a whole. It is also possible that the one court would find the transmission infringing while the other court would find it within an applicable defense. In that case, one judgment should be considered to *undermine the other*. If the defendants obey the judgment that requires them to refrain from transmitting, they thwart the policies of the State that found the transmission lawful. Alternatively, if the defendants move to the State that allows the transmission, they thwart the policies of the State that found the transmissions unlawful.

3. Raphael Inc., an e-book publisher and resident of Patria, travels to Xandia, where it enters into an agreement with an author whose works were previously published in print format by Bravo, which is located in Pontevedro. The agreement obligates Raphael to disseminate the works in the new format. Bravo is neither a party to the contract nor aware of it. Bravo sues Raphael in Patria for injunctive relief, claiming that the transfer of copyright ownership Bravo received from the Xandian author covered publication in all media for all countries. Bravo seeks to join the author to the action.

If Bravo won a suit against Raphael to which the author was not bound, then the author could sue Raphael in another action for specific performance. If Raphael lost the second suit, then there would be two judgments, one prohibiting publication, the other ordering it, and Raphael could not *conform its behavior* to both.

*d. Fair process.* These Principles cannot expand the reach of domestic concepts of personal jurisdiction. Thus, the limitations in subsections (a) and (b) should be understood as confining the reach of multiple-party authority to cases where there are strong enough contacts between the defendants and the forum to support adjudicatory authority under the forum State's standards of fair process. Section 206 proposes two different relationships as the basis for asserting multiple-defendant jurisdiction:

(1) *Section 206(1)(a).* Defendants subject to jurisdiction under § 206(1)(a) are those seeking to utilize intellectual property created by forum law. While utilization of protected material does not create a strong connection to the forum, it is a voluntary connection that has, within the for-

um, an impact on rights holders and licensees, attenuating the incentive available to creators under the intellectual property system, and—in the case of trademarks—causing consumer confusion. Significantly, jurisdiction based on an “effects test” has been recognized in the United States in the European Union and in other States in antitrust and trademark cases, as well as in other contexts. Thus, in the Illustrations, the party sought to be joined was engaged in activity that it knew would profit from the intellectual property rights of the State where joinder was sought.

(2) *Section 206(1)(b)*. There may be situations where the commercial benefit of activity in one territory depends on activity in other locations. In such cases, it is possible that few individual participants will have contacts with all of the places where infringement takes place, but the enterprise as a whole necessarily contemplates contact in each jurisdiction. This provision is intended to enable a court to fully resolve disputes arising from these “hub and spoke” or “spider and web” situations exemplified by the Illustrative Overview. In addition, there may be instances where a rights holder is faced with parallel activities, such as mirror websites, in which no particular actor is dominant (and therefore no particular territory can be deemed the “hub” of the activity). Nonetheless, there cannot be complete relief unless all actors are enjoined. While the rights holder could seek injunctions from courts in each territory concerned, the risk of inconsistent judgments (and higher litigation costs) make this solution cumbersome for both plaintiffs and defendants.

In cases where the defendants conduct their activities in parallel rather than in a hub-and-spoke arrangement, the contacts between the defendants and the forum may be attenuated and there may be less intentional derivation of benefits from the forum State. However, if parallel activity is

not covered, there may be an incentive to disguise intentional multiterritorial conduct in an effort to avoid jurisdiction.

*e. Distinction between joinder of defendants and consolidation under §222.* In order for cases to be consolidated in a court under § 222, that court must have power over all the parties. Section 206 facilitates consolidation because it gives certain courts broader authority over the parties.

*f. Exceptions.* Subsection (3) recognizes that court-selection clauses take precedence over the efficiency considerations underlying subsection (1).

*g. Relation to subject-matter jurisdiction.* This provision is not intended to alter the subject-matter jurisdiction of the court. Although the Principles contemplate that courts will exercise their subject-matter authority to the maximum extent allowable, the assertion of power cannot exceed the court's subject-matter competence, see §§ 211-212.

**Illustration:**

4. Linda, a U.S. resident, sues Sophie, a German resident, in Germany for infringing Linda's copyrights. Linda joins Diane, who is a resident of France, for facilitating Sophie's efforts by, among other things, providing Sophie with a computer particularly suited to Sophie's activities. In addition to asserting claims against Diane for contributory copyright infringement, Linda joins a claim against Diane for infringing Linda's French patent on the computer.

Even if Linda can acquire personal jurisdiction over Diane, and even if she can supplement claims for injuries outside Germany (see § 212), Linda may be unable to assert the patent claim because of limits on the German court's subject-matter authority.

## REPORTERS' NOTES

*1. Need for a special approach to multi-defendant cases.* The AIPPI considered the risk of inconsistent outcomes as one of the main reasons for taking an international approach to jurisdiction and applicable law in cross-border cases, see AIPPI, Q174 Resolution; AIPPI, Summary Report, Question Q174—Jurisdiction and Applicable Law in the Case of Cross-border Infringement of Intellectual Property Rights, available at [http://www.aippi.org/reports/q174/Q174\\_summary\\_e.pdf](http://www.aippi.org/reports/q174/Q174_summary_e.pdf). The situations of particular concern were the “spider in the web” cases, involving multiple defendants agreeing among themselves to commit acts having infringing effects around the world. The AIPPI suggested an approach similar to the one taken here, see AIPPI, Q174 Resolution. Recent cases involving file-sharing services, search engines, and providers of various Internet services (auction houses, television and radio streaming, etc.) that operate globally, often through subsidiaries, illustrate the need to which the AIPPI and these Principles respond.

*2. Definition of inconsistent judgments:*

(i) Redundant liability. The term is meant to convey unjustified cumulative liability, sometimes called “multiple liability” or “overlapping liability,” see Fed. R. Civ. P. 19; see also *Society of Composers, Authors & Music Publishers of Canada v. Canadian Ass’n of Internet Providers*, [2004] 2 S.C.R. 427, ¶ 78 (Can.), on which Illustration 2 is loosely based. In that case, the court recognized that an enterprise could be sued at both the place of transmission and the place of reception and be made to pay twice for the same transmission; it suggested that the way to deal with the problem was through an international agreement specifying where royalties should be levied. *Id.* ¶¶ 76-78. Another possibility is for a court to offset or credit a defendant who has paid part of all of a judgment elsewhere. The Principles take a different approach and instead facilitate joinder of all parties in a single action.

(ii) Undermining judgments. In the United States, principles of nonmutual issue preclusion and privity are often used to protect litigants from a second suit that undermines the resolution of an earlier dispute, see, e.g., the discussion in *Bernhard v. Bank of America Nat’l Trust & Sav. Ass’n*, 122 P.2d 892 (Cal. 1942) (nonmutual issue preclusion). See also *Mars Inc. v. Nippon Conlux Kabushiki-Kaisha*, 58 F.3d

616 (Fed. Cir. 1995) (holding that party who allegedly induced infringement was in privity with infringing party for claim-preclusion purposes). However, not every State recognizes this use of preclusion law (*res judicata*). Another way to avoid undermining a prior resolution is by refusing to enforce one of the judgments on inconsistency grounds, see, e.g., *Marubeni America Corp. v. Kabushiki Kaisha Kansai Tekkosho*, 361 Hanrei Taimuzu 127 (Osaka D. Ct., Dec. 22, 1977). However, under that approach, the parties engage in much wasted litigation with no clear understanding of which judgment will ultimately be imposed.

(iii) Conforming behavior. In the United States, some courts have ruled that two judgments are inconsistent only when it is impossible for the parties to conform to both. See, e.g., *Indianapolis Colts v. Mayor and City Council of Baltimore*, 733 F.2d 484, 486-87 (7th Cir. 1984) (interpleader case). Under that definition, it is possible that Illustration 3, which is loosely based on *Random House, Inc. v. Rosetta Books LLC*, 283 F.3d 490 (2d Cir. 2002), would not be considered an example of inconsistency because Linda could satisfy both judgments by refraining from publishing and paying damages to the author. However, because of the high interest in free expression, receiving damages is not an adequate substitute for dissemination of the work. For further discussion, see Rochelle Cooper Dreyfuss, *An Alert to the Intellectual Property Bar: The Hague Judgments Convention*, 2001 U. Ill. L. Rev. 421.

3. *Section 206(1)(a)*. The requirement of a connection between the defendant's activity and the intellectual property of the territory essentially utilizes an "effects test." Such a test has been established in antitrust cases, cf. *Hartford Fire Ins. Co. v. California*, 509 U.S. 764 (1993) (assuming that if Congress exercises its legislative jurisdiction under the Sherman Act, a U.S. court has power to hear the case). It is also well known in trademark cases, see, e.g., *Bancroft & Masters, Inc. v. Augusta Nat'l Inc.*, 223 F.3d 1082, 1087 (9th Cir. 2000).

Typically, a plaintiff relying on an "effects test" basis of jurisdiction will have alleged that the defendant "committed an intentional act that was expressly aimed at the forum state; and that caused harm, the brunt of which the defendant knew was likely to be suffered in the forum state;" *Nissan Motor Co. v. Nissan Computer Corp.*, 246 F.3d 675 (9th Cir. 2000) (unpublished opinion) (citing *Panavision Int'l, L.P. v.*

Toeppen, 141 F.3d 1316, 1321 (9th Cir.1998)). In the cases contemplated here, the effects may sometimes be more attenuated. However, the interests of the forum and of the judicial system as a whole strongly favor consolidation as a means to avoid inconsistent outcomes. While it is not clear how much these interests matter in a due-process analysis, the combination of effects, the concern over inconsistency, and the interest of a State in maintaining the value of its intellectual property rights may be enough to tip the balance in favor of permitting the exercise of specific jurisdiction in cases where the harm is substantial, direct, and foreseeable. See, e.g., *Mullane v. Central Hanover Bank & Trust Co.*, 339 U.S. 306 (1950).

The assertion of jurisdiction over foreign defendants would also accord with international standards of reasonableness, as envisioned in *Asahi Metal Indus. Co. v. Superior Court*, 480 U.S. 102 (1987), given the inclusion of a similar basis for jurisdiction in the Brussels Regulation, see art. 6(1).

4. *Section 206(1)(b)*. Insofar as this provision is intended to provide for jurisdiction in the case in which the parties are involved in conjoined activity of the hub-and-spoke, or spider-in-a-web variety, this approach is akin to the conspiracy theory of jurisdiction that has been used by U.S. courts in other contexts. See, e.g., *United Phosphorus, Ltd. v. Angus Chem. Co.*, 43 F. Supp. 2d 904, 912 (N.D. Ill. 1999) (antitrust law); *Mandelkorn v. Patrick*, 359 F.Supp. 692, 694-97 (D.D.C. 1973) (action by member of a religious sect alleging others conspired to deprive sect members of religious freedom). See generally Ann Althouse, *The Use of Conspiracy Theory to Establish in Personam Jurisdiction: A Due Process Analysis*, 52 *Fordham L. Rev.* 234 (1983).

The relationship between some of the parties and the forum may be attenuated. This may be particularly true in the case of “parallel activity.” Yet, the international interest in providing a court in which a dispute can be definitively resolved should be enough to support jurisdiction, even under the strict constitutional standards in the United States. Certainly, this will be so when there is no other forum where the dispute could be fully litigated. Compare *Atkinson v. Superior Court*, 316 P.2d 960 (Cal. 1957) with *Hanson v. Denckla*, 357 U.S. 235 (1958). See also *Mullane v. Central Hanover Bank & Trust Co.*, 339 U.S. 306

(1950); cf. *Helicopteros Nacionales de Colombia, S.A. v. Hall*, 466 U.S. 408, 419 n.13 (1984); *Shaffer v. Heitner*, 433 U.S. 186, 211 & n.37 (1977). See also ALI/UNIDROIT Principles of Transnational Civil Procedure, Rules 4.7 (permitting a court to exercise jurisdiction “when it appears that the dispute cannot otherwise be effectively and expeditiously resolved”); 5 (contemplating multiple claims and multiple parties). Although § 206 may appear to be in tension with *Asahi*, the dismissal in that case could be understood as an unacknowledged forum non conveniens case, particularly since the other parties settled out, leaving just the indemnity claim by one foreign entity against another.

5. *Jurisdiction available under similar circumstances in European law.* Art. 6 of the Brussels Regulation provides for jurisdiction in the “hub and spoke” situation contemplated in § 206. See, e.g., *Expandable Grafts P’ship/Boston Scientific, Gerechtshof [Hof] [Court of Appeal], Den Haag*, 23 april 1998 (Neth.), reported in 20 *Eur. Intell. Prop. Rev.* N-132 (1998). However, in *Case C-593/03, Roche Nederland BV v. Primus*, [2007] F.S.R. 5, the European Court of Justice adopted a narrow interpretation of art. 6(1) pursuant to which the provision would not be applicable with respect to the infringement of parallel European patents in different Member States by different potential infringers, even where all potential infringers were part of the same group and acted pursuant to a groupwide policy formulated by one member of the group. *Id.* ¶ 41. It is, however, important to note that in *Roche*, the court was concerned about cases in which patent validity would be put into issue; under art. 16(4) of the Brussels Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters, Sept. 27, 1968, 1262 U.N.T.S. 153, available at [http://www.wipo.int/treaties/en/ip/brussels/trtdocs\\_wo025.html](http://www.wipo.int/treaties/en/ip/brussels/trtdocs_wo025.html) [hereinafter Brussels Convention] (now art. 22(4) of the Brussels Regulation), the State of registration has exclusive jurisdiction over patent validity determinations. See *Roche*, supra, ¶ 40. While the ECJ relied on the notion that differing determinations of patent validity are not “inconsistent” because the patent law of each nation is different, the “differences” are more formal than real when all patents are derived from a single EPC application. See Annette Kur, *A Farewell to Crossborder Injunctions? The ECJ decisions GAT v. LuK and Roche Nederland v. Primus and Goldenberg*, 37 *Int’l Rev. Intell. Prop. & Competition L.* 844 (2006).

6. *Distinguishing jurisdiction under these Principles from domestic limits on jurisdiction.* When a State determines whether an assertion of jurisdiction under these Principles meets its own domestic standards, the State is not confined to the approach taken by the Principles and can instead rely on any of its own bases of jurisdiction. Thus, for example, even though the United States does not recognize multiple-party jurisdiction, in some instances, it may be possible to meet U.S. domestic due-process requirements using a general doing-business theory. This is true even though the Principles prohibit asserting jurisdiction on this basis. In some cases, it may be possible to assert jurisdiction as a matter of domestic law in reliance on Fed. R. Civ. P. 4(k)(2), which contemplates the assertion of jurisdiction based on nationwide contacts in federal-question cases. A similar approach is followed by the ALI Foreign Judgments Project, see § 6(b) and § 5, Comment *e*. See also William S. Dodge, *Antitrust and the Draft Hague Judgments Convention*, 32 *Law & Pol’y Int’l Bus.* 363, 378 (2001).

7. *Third-party practice.* A prior draft included a provision specifying a court’s authority over parties brought in as third-party defendants. This provision was intended to avoid a battle of litigation, which is particularly likely to erupt in international indemnification situations. An example is *Marubeni America Corp. v. Kabushiki Kaisha Kansai Tekkosho*, 361 *Hanrei Taimuzu* 127 (Osaka D. Ct., Dec. 22, 1977), where the Japanese party was impleaded in a Washington action and lost, then brought a separate suit in Japan for a declaration of nonliability. The court rejected a preclusion-based defense (*res judicata*), on the theory that even though the U.S. judgment was final under Washington law, it was not final under Japanese law. The Japanese party won in the second suit, and that judgment was successfully asserted as a defense when the third-party plaintiff sought to enforce the Washington judgment in Japan. As Professor Clermont said, the result was “not a pretty picture,” Kevin M. Clermont, *A Global Law of Jurisdiction and Judgments: Views from The United States and Japan*, 37 *Cornell Int’l L.J.* 1, 20 (2004). The provision was omitted from the final draft. First, insurance companies and other well-advised parties would have contracted around it. Second, because authors are often required to warrant that their manuscripts are noninfringing and nondefamatory, they could easily have

become the targets of third-party practice and a broad rule subjecting them to jurisdiction in remote locations seemed inappropriate.

**§ 207. Insufficient Grounds for Jurisdiction over Transnational Disputes**

**Jurisdiction to adjudicate a transnational dispute under these Principles is insufficient when exercised solely on the basis of any one of the following grounds:**

**(1) the presence in that State of tangible property belonging to the defendant, except when the dispute is directly related to that property;**

**(2) the existence of defendant's intellectual property rights under the law of that State, except when the dispute is directly related to that intellectual property;**

**(3) the nationality of the plaintiff;**

**(4) the nationality of the defendant;**

**(5) the presence of the plaintiff in that State;**

**(6) the conduct of commercial or other activities by the defendant in that State, except when the dispute is related to those activities;**

**(7) service of a writ upon the defendant in that State; or**

**(8) completion in that State of the formalities necessary to execute the agreement to which the dispute pertains.**

**Comment:**

*a. Generally.* This provision is intended to circumscribe the power of a court entertaining a transnational dispute pursuant to the Principles. The Principles urge courts to extend their authority beyond their traditional limits in order to create an efficient means for resolving global disputes. Such adjudication should go hand in hand with a reluctance to reach out to marginal cases. Thus, there may be bases of authority that, while permissible in traditional cases, should be considered insufficient, in the context of transnational disputes, to support enforcement. See §§ 401-403.

The jurisdictional insufficiencies listed in § 207 apply *only* to transnational disputes as defined by §§ 101-102: disputes raising claims or defenses under the intellectual property rights of a State other than the forum, or disputes that arise out of activities occurring, at least in part, outside the forum. In other cases, courts will presumably apply domestic law. Thus, the main significance of this provision is in connection with enforcement under Part IV. Nonetheless, a court may use it to guide jurisdiction decisions in domestic cases of equivalent complexity.

**Illustrations:**

1. Delphine, a U.S. inventor, brings a suit in a federal court in the United States against ChrisCo., a Japanese company, alleging that ChrisCo. is infringing its U.S. patents. The court's adjudicatory authority is based on "doing business" jurisdiction. Delphine wins a judgment and seeks to enforce it against ChrisCo.'s assets in Japan and the United States.

The decisions to entertain the dispute and to enforce the judgment are not controlled by the Principles, because the dispute does not meet the definition of “transnational.”

2. Same facts, except that Delphine alleges that ChrisCo. is infringing its worldwide patents and seeks to enforce a judgment that adjudicated worldwide claims.

Because Delphine raises claims arising under the intellectual property laws of countries other than the United States, the dispute falls within the Principles. Doing business is not an adequate basis for adjudicatory authority under § 207(6). If enforcement is sought in the United States, the Principles will not apply, because Part IV is limited to the enforcement of foreign judgments. A reflexive application of the current approach to full faith and credit would mandate enforcement. Nonetheless, if the rendering court chose to entertain a transnational case, the enforcement court ought to consider whether the extraordinary reach of the rendering court’s authority required it to have had a closer nexus to the defendant than is contemplated by current U.S. law.

*b. Section 207(1): the presence of tangible property.* These Principles distinguish tangible from intellectual property. The provision applies *only* when the presence of property is asserted as the sole basis of jurisdiction. When the tangible property is related to an infringement, or is used for purposes of furthering an infringement, it may provide a sufficient nexus with the State to permit the assertion of jurisdiction. See § 204. Tangible property directly related to an infringement action would include infringing articles,

such as pirated books, phonograms, and videos, or counterfeit goods such as false-brand-name watches. Relevant tangible property can also include the physical means for making the infringing goods or copies, such as computer hardware and media, recording equipment, and other machinery. The kinds of physical devices whose presence in the State may suffice to afford jurisdiction are generally those that courts are empowered to impound or destroy as a remedy in an infringement action. They may serve as a basis for authority to order provisional and protective measures under § 214.

Furthermore, seizure of physical property as a border-control measure affords a permissible basis of jurisdiction under § 204(2), because the goods themselves are allegedly infringing and, if allowed to enter the forum, would have a significant impact. However, adjudicatory authority is limited to the infringement claim respecting those goods.

*c. Section 207(2): the existence of intangible intellectual property rights.* As some of these rights arise automatically (without registration), their existence is not enough, without more, to support general adjudicatory authority over the right holder. When registration is required, the rights holder's completion of required formalities within the jurisdiction is irrelevant to claims that do not concern the registered right. Similarly, some jurisdictions may permit seizure or freezing of intellectual property rights; unless the act of seizure constitutes a general appearance under local law, it is not enough to confer general jurisdiction.

*d. Section 207(3) and (4): nationality of the parties.* This provision recognizes emerging norms in international civil procedure declining to base jurisdiction on nationality alone.

Nationality may, however, be a factor in determining the defendant's residence under § 201. In a case where § 201(2) does not provide a solution (because the defendant has no easily identifiable habitual residence), nationality may be the determinative factor.

*e. Section 207(5): presence of the plaintiff.* The presence, including the domicile or residence, of the plaintiff is insufficient as a sole basis of jurisdiction.

*f. Section 207(6): doing business.* These Principles should not be applied when general jurisdiction is based on the unrelated commercial activities of the defendant. However, the Principles enlarge courts' authority in other ways. First, the definition of a juridical person's residence is capacious. See § 201(3). Second, when the defendant is not otherwise amenable to suit in a WTO State, § 204(3) expands specific jurisdiction. It confines the court's competence to the activities that gave rise to the claim in the forum, but permits the court to consider harm resulting from the impact of those activities in other States.

**Illustrations:**

3. Music4free.com, a Freedonian corporation, makes its website available to users throughout the world to download unauthorized MP3 files, without restriction as to the geographical origin of the downloading user. Music4free.com's website is in English; it carries English-language advertising and charges nothing for downloads. Freedonia is not a member of the WTO. George MacLennon is a British songwriter whose works are among those offered on Music4free.com.

Last summer, while George MacLennon was vacationing in Estonia, he was the victim of a car accident caused by the negligence of Benny Zen, a visiting Swede. It turns out that Zen is also the chief programmer, president, and Chairman of the Board of Music4free.com; Zen is in Estonia pursuing Music4free.com's business interests.

Music4free.com's invitation to all users to access and download the site may constitute "directing activities" to all countries from which access may be had. If the files Music4free.com offers are predominantly of U.S. and UK popular music, and the language of the website and its advertising are in English, this may constitute more evidence of "directing," as well as an indication that Music4free.com "solicits or maintains contacts, business, or an audience [in Anglophone States] on a regular basis." Under § 204(2) of the Principles, Music4free.com would be amenable to a copyright-infringement suit in the United States seeking an injunction and damages for downloads committed in the United States, and to a suit in the UK regarding its acts impacting the United Kingdom.

In addition, under § 204(3), MacLennon may, in either court, allege worldwide damages arising out of the unauthorized making available of his works on the Music4free.com site. By contrast, the Principles would not endorse MacLennon's suit against Zen in the United States or in the United Kingdom on the automobile negligence claim, as the suit is completely unrelated to Music4free.com's offering of MacLennon's works from the website.

4. LLPea, a Patrian company, sells merchandise on the Internet at its website, LLPea.com. Crocodile.com, which is based in Freedonia, sells a service that recognizes particular websites as they are accessed and arranges for a pop-up ad to appear on that site. Crocodile.com has sold this service to one of LLPea's rivals. When LLPea threatens to sue, Crocodile.com brings an action in Freedonia for a declaration that the ad does not infringe LLPea's trademark. LLPea claims that there is no jurisdiction over it in Freedonia.

The Principles do not endorse Freedonia's exercise of personal jurisdiction over LLPea. This is not a specific-jurisdiction case because the claims do not arise from LLPea's activities in the forum: while LLPea may send merchandise to the forum, this claim concerns LLPea's trademark, not its merchandise (even if trademarked). Under these Principles, there is no general doing-business jurisdiction. Thus, even if LLPea continuously and systematically sends merchandise to Freedonia, that is insufficient to found jurisdiction with respect to a claim so attenuated to these sales.

*g. Section 207(7): serving a writ.* In accordance with international norms, the Principles eliminate "tag" jurisdiction as a basis of jurisdiction. Thus, serving notice on a party in one State in order to comply with another State's notice requirements should not lead to amenability to suit in the State where notice is served. Parties should be encouraged to resolve disputes through lawful means. Accordingly, the methods for initiating contact or beginning a lawsuit are insufficient to support authority to decide a transnational

dispute. These include not only service of process but invitations to negotiate, or cease-and-desist letters. If the subject matter of these communications involves a claim to intellectual property rights in the State in which the letter is received, then a court in the State may enjoy specific jurisdiction, but that jurisdiction will be based on the defendant's intellectual property rights in the State, and not on the communication or writ.

**Illustration:**

5. Nicole, a resident of Patria, sends Jeff, a resident of Xandia, a letter alleging that Jeff is infringing Nicole's Xandian and Tertian copyrights. Jeff sues Nicole in Xandia, asking for a declaration that it is not infringing any of Nicole's rights.

The Xandian court has jurisdiction over Nicole to hear claims related to Nicole's intellectual property rights in Xandia. However, the court's jurisdiction is specific. Thus, under the Principles, its authority does not extend to claims regarding rights in Tertia.

In some States, threats and cease-and-desist letters may give rise to claims for unfair competition, antitrust liability, or interference with business relationships. In such cases, the local activities may be sufficient to support specific jurisdiction, but not jurisdiction over out-of-State claims.

*h. Section 207(8): executing an agreement.* Without more, the completion of the formalities to execute an agreement (such as putting one's signature on a contract) is not enough to support jurisdiction over claims arising from the agreement. It is especially inappropriate for Internet agreements, where the parties may not be aware of the location of the

other side (and therefore not aware of where the contract may be regarded as signed). Moreover, on the Internet, agreements may be consummated by computer, automatically. In contrast, a contract that “authorizes” distribution of a protected work without the permission of the right holder may be considered sufficient to support jurisdiction based on the *authorization* as an element of a substantive violation, not because the agreement was *signed* in the forum State.

### REPORTERS’ NOTES

1. *Generally.* The prohibited bases of jurisdiction reflect internationally recognized standards of fair assertion of State power in international adjudication. The Principles do not purport to affect the bases of personal jurisdiction in purely domestic cases, nor, for that matter, in transnational disputes not concerning intellectual property.

2. *Section 207(1): the presence of tangible property.* The kinds of physical devices whose presence in the State may suffice to afford jurisdiction are generally the kinds that courts are empowered to impound or destroy as a remedy in an infringement action. See, e.g., for U.S. copyright, 17 U.S.C. § 506(b) (forfeiture and destruction) and § 509 (seizure and forfeiture); for U.S. trademarks, 15 U.S.C. § 1118 (destruction of infringing articles). See also TRIPS Agreement art. 46 (“Other [r]emedies” include “authority to order that materials and implements the predominant use of which has been in the creation of infringing goods be . . . disposed of outside the channels of commerce in such a manner as to minimize the risks of further infringements.”). The provision is consistent with border-exclusion actions, see, e.g., 19 U.S.C. § 1337; TRIPS Agreement arts. 51-60. See also *Norwich Pharmacal Co. v. Customs & Excise Comm’rs*, [1974] A.C. 133, 146 (H.L. 1973), *Washburn v. Cunard*, [1889] 6 R.P.C. 398; *Smith, Kline & French Labs. Ltd. v. RD Harbottle (Mercantile) Ltd.*, [1980] R.P.C. 363 (Ch. D. 1979) (seizure of goods in transit).

3. *Section 207(2): existence of intangible intellectual property rights.* Seizure of intellectual property rights is not common, except perhaps with regard to domain names. See 15 U.S.C. § 1125(d)(2)(A). However, it is not unknown; see, e.g., *United States v. Chemical Foundation, Inc.*,

272 U.S. 1 (1926) (wartime seizure of enemy patents, trademarks, and copyrights, sale by Alien Property Custodian); *Ager v. Murray*, 105 U.S. 126 (1881) (seizure of patent in payment of debt); *Gaiman v. McFarlane*, 360 F.3d 644, 655 (7th Cir. 2004) (referring to seizure of a copyright in payment of a debt).

4. *Section 207(6): doing business.* Illustration 4 is based on the facts of *Gator.com Corp. v. L.L. Bean, Inc.*, 341 F.3d 1072 (9th Cir. 2003), rehearing en banc granted, 366 F.3d 789 (9th Cir. 2004), and subsequently settled. See *Gator.com Corp. v. L.L. Bean, Inc.*, 398 F.3d 1125 (9th Cir. 2005) (en banc) (settlement moots case).

5. *Section 207(7): serving a writ.* As noted above, tagging the defendant with a writ is not an internationally accepted basis of jurisdiction. See also *Yahoo! Inc. v. La Ligue Contre Le Racisme et L'Antisemitisme*, 433 F.3d 1199, 1209 (9th Cir. 2006) (en banc) (service of process alone is not sufficient to support jurisdiction in California over a resident of France).

## Chapter Two

### Jurisdiction over the Subject Matter

#### § 211. Subject-Matter Jurisdiction

**(1) Except as provided in subsection (2), a court is competent to adjudicate claims and defenses arising under foreign laws pertaining to copyrights, neighboring rights, patents, trade secrets, trademarks, related intellectual property rights, and contracts that are related to any of these rights.**

**(2) The adjudication of the validity of registered rights granted under the laws of another State is effective only to resolve the dispute among the parties to the action.**

**(3) A court may permit intervention by a person having an interest substantially connected to the subject matter of the proceeding if the court finds that the intervention will not cause undue confusion or delay, or otherwise unfairly prejudice a party.**

#### **Comment:**

*a. Subject-matter jurisdiction generally.* Each State controls the reach of its courts' authority over the subject matter of disputes. For example, the Principles cannot alter a rule that limits a court's power to entertain foreign intellectual property claims. However, the efficiency goals underlying the Principles are best effectuated when the rules on adjudicatory authority are broad enough to encompass for-

eign claims. In cases where such authority is unavailable, however, the Principles provide a mechanism for cooperative adjudication. See §§ 221-223.

*b. Subject-matter jurisdiction over registered rights.* There is substantial sentiment that issues regarding the validity of a registered right, particularly a patent right, should be adjudicated in the courts of the State in which the right is registered. Only this State is competent to cancel the registration. Furthermore, there are regional agreements that confine adjudicatory authority to the State of registration. Some countries further channel validity disputes into special fora. The Principles do not include a blanket prohibition on the adjudication of matters involving a foreign State's registered rights, because separating adjudication of validity from infringement can have substantive ramifications. Separate resolutions can prevent a court from hearing all of the evidence relevant to the action and from using its understanding of how a technology is utilized to inform its decision on the scope of the right. Bifurcating validity and infringement can also increase the parties' costs. In cases where rights under the laws of multiple States are in issue, the Principles therefore permit adjudication but confine its effect to the parties to that litigation. This limit on jurisdiction is enforced by § 413(2).

*c. Intervention.* Resolution of global disputes can be greatly facilitated if interested parties intervene in cases affecting their interests. However, the efficiency of the adjudication may depend on the timing of the intervention. If the existing parties would be prejudiced by the intervention, the court should deny the motion to intervene. Similarly, the motion should be denied if intervention would cause confu-

sion or delay. An intervening party should have the same rights and obligations as the original parties, subject to adjustments the court might make to protect the original parties from delay, confusion, or prejudice. The intervenor does not, however, have the right to delay resolution of the dispute as a whole by invoking a court-selection clause.

### REPORTERS' NOTES

1. *Adjudication inter se*. This method of handling the registered-rights problem was suggested by Curtis Bradley, writing at the behest of the United States State Department negotiators of the Hague Judgments Draft. See Special Commission on International Jurisdiction and the Effect of Foreign Judgments in Civil and Commercial Matters, Hague Conference on Private International Law, Work Doc. No. 97E, 39, 122 (Nov. 10-20, 1998). He distinguished between rights among individuals and rights against the world. Under his proposal to the Hague drafters, parties would be allowed to litigate their entire case in any court that has jurisdiction under the general terms of these Principles. However, if the case were litigated outside the State where the right was deposited or registered, the “status or validity of the deposit or registration of . . . rights [would have] effect as between the parties only.” *Id.* This approach is also being pursued by the Max Planck Institute project. It may not result in as much duplicative litigation as might appear at first blush, for once the court of one commercially significant jurisdiction declares a patent invalid, the patentee cannot easily enforce the right, or counterpart rights, against any other party.

There are, however, several counterarguments. If it is true that the patentee is hampered in its ability to enforce a right declared invalid in a proceeding with limited effect, then licensees who continue to license the patent compete at a disadvantage with respect to the judgment winner. The result is that the patent does not serve its intended purpose of stimulating innovation by rewarding innovators. In addition, the popularity of the EPC and the PCT means that many national patents stem from a single application. The possibilities it creates for work-sharing among patent

offices generates incentives for nations to further harmonize their requirements for patent protection. As this system evolves, the scope of validity determinations should be revisited.

German courts had frequently determined validity or invalidity of foreign patents with effect *inter se* where invalidity is raised as a defense in infringement actions. However, the European Court of Justice has recently ruled this practice to be inconsistent with art. 16 of the Brussels Regulation. It held that limiting the effect of the decision to the parties would “lead to distortions, thereby undermining the equality and uniformity of rights and obligations arising from the Convention for the Contracting States and the persons concerned.” Case C-4/03, *Gesellschaft für Antriebstechnik mbH & Co KG v Lamellen und Kupplungsbau Beteiligungs KG*, [2006] E.S.R. 45, ¶ 30. The court was skeptical of the efficiencies that could be achieved through *inter se* determinations of the validity of foreign patents. The Principles nonetheless assume that consolidation of multiple national patent claims will become increasingly important in a globalized marketplace. A mechanism for public notification of *inter se* invalidity determinations would be a useful complement to the Principles as it would contribute to maintaining the public domain.

2. *Intervention.* Rule 5.3 of the ALI/UNIDROIT Principles of Transnational Civil Procedure similarly contemplates intervention.

3. *Allocation of judicial authority over foreign versus domestic intellectual property disputes.* In some States, domestic intellectual property cases are channeled to a specific forum. In situations where a domestic claim is pleaded in addition to foreign claims, the entire dispute should be heard in that court. However, in the event that only foreign claims are at issue, the specific forum may lack subject-matter jurisdiction. In that event, one of the forum’s courts of general jurisdiction may entertain the case. This scenario may transpire when alleged infringements are occurring in several States other than that of the defendant’s residence. The plaintiff should be permitted to choose between a single forum competent to hear all claims, yet inexperienced in intellectual property, and a multiplicity of more expert fora competent to hear only national claims. Cf. *London Film Prods. Ltd. v. Intercontinental Commc’ns Inc.*, 580 F. Supp. 47 (S.D.N.Y. 1984) (suit

brought in forum of defendant's residence, alleging infringement of copyright in several Latin American countries. Dismissal on ground of forum non conveniens inappropriate).

### **§ 212. Counterclaims, Supplemental Claims, and Defenses**

**(1) A court may determine all claims and defenses among the parties arising out of the transaction, occurrence, or series of transactions or occurrences on which the original claim is based, regardless of the territorial source of the rights at issue or of the party that asserts them. However, with respect to each asserted claim, the court must have subject-matter jurisdiction under its local law and personal jurisdiction under §§ 201-207.**

**(2) A court may decline to exercise jurisdiction over a supplemental claim unrelated to intellectual property rights when the claim substantially predominates over the claims properly within the scope of these Principles.**

**(3) A court should not decline to exercise jurisdiction over supplemental claims for the sole reason that the claims are based on foreign law.**

**(4) A court has authority to consider defenses related to the invalidity of registered rights. In an action in which a court in one State has determined that the registration of a right in another State is invalid, the effect of the judgment is limited to the parties to that action.**

**Comment:**

*a. Power to entertain supplemental claims.* This section suggests that where a court has subject-matter jurisdiction and personal jurisdiction pursuant to §§ 201-207, it should exercise the authority to permit litigants to assert all their claims arising out of the same transaction or occurrence or series of transactions or occurrences.

*b. Distinction between subject-matter and personal jurisdiction.* Subject-matter authority over supplemental claims must be distinguished from personal jurisdiction. The rules on when a defendant is subject to suit are set out in §§ 201-207. A court may lack personal jurisdiction to entertain supplemental claims in cases in which the court's power arises from specific jurisdiction, e.g., under § 204(2). In such cases, however, once the defendant is successfully joined in the suit, it may for efficiency reasons decide to waive the objection to personal jurisdiction.

*c. Other bases of personal jurisdiction.* These rules are intended to govern adjudication and enforcement under these Principles. Local law may permit the assertion of jurisdiction in situations that are not addressed by §§ 201-207, or that are prohibited under § 207; further, it may be more liberal in permitting the assertion of transactionally related claims that would not be cognizable under the Principles. However, because the Principles envision wide-ranging coordination of multinational cases, limits are placed on the jurisdictional reach of participating courts. When personal jurisdiction is asserted over a claim only because it is transactionally related to a claim within the court's power, the resulting judgment may be enforceable locally, but it is not entitled to enforcement under §§ 401-403 of these Principles.

*d. Same transaction, occurrence, or series of transactions or occurrences.* This section adopts a transactional approach to determining the appropriate scope of litigation. Because the transactional approach represents the modern view in most jurisdictions, the Principles reject tests based on the claims in the case, the theories of recovery, the evidence necessary, and the like. The transactional approach should be understood in light of the efficiency and fairness goals of the Principles. A narrow scope of authority would require parties pursuing claims or enforcing judgments to proceed in several fora simultaneously, thereby undermining both objectives. Thus, the standard is to be administered pragmatically, based on the relationship of the operative facts and the relatedness of the issues in the dispute in time, space, origin, and motivation. The ultimate question concerns the convenience of trial and the expectations of the parties in light of evolving practices in transnational litigation.

*e. Foreign-law claims.* Parties should be permitted to assert claims based on foreign laws when they are closely related to the dispute the court is entertaining. The mere presence of a foreign-law claim should not determine whether the court has subject-matter authority in the first instance. Cf. § 103(2). However, it may be appropriate to decline to hear a foreign-law claim because the claim is novel, the law is unclear, against local public policy, or better handled by a specialized tribunal; or because the potential remedy would be better administered elsewhere. In addition, the presence of foreign-law claims may affect whether the court entertains the case or stays its action pending adjudication elsewhere, or whether a global dispute is resolved cooperatively or through consolidation. See §§ 222.

**Illustration:**

1. X holds a Xandian and a Patrian patent on an invention on an electronic instrument. Alleging infringement of the Xandian patent, X brings an action in Xandia against Y, who is selling similar instruments in both States. X seeks to file a supplemental claim for infringement of the Patrian patent. Y moves for dismissal under the doctrine of forum non conveniens.

If the Xandian and Patrian patents are directed to the same technology, the court should consider whether efficiencies can be obtained from trying the claims together. For example, the claims may be identical (as they might be were both States party to an agreement such as the EPC and the patents were examined by the EPO). Or, even where the claims differ, the most difficult task for the court may be mastering the technology underlying the patents. If so, it might be wasteful to require yet another court to learn the technology. In such a situation, the Principles would regard a forum non conveniens dismissal as inappropriate.

*f. Power to decline to exercise supplemental authority.* Section 212(2) allows courts to decline to exercise authority over supplemental claims. Courts should dismiss supplemental claims when they substantially predominate over intellectual property claims. In addition, novel claims, claims involving law that is unclear or that is best channeled to a specialized tribunal, may be declined.

*g. Rejection of the imposition of a compulsory joinder rule.* Although the general approach of these Principles strongly favors the assertion of transactionally related claims in a single action, they do not go further and require the join-

der of related claims, nor do they impose stringent rules on preclusion (*res judicata*) that would regard omitted transactionally related claims as precluded. Although U.S. federal law provides for this, such is not the rule in most countries; to impose it here would lead clients who are advised by attorneys unfamiliar with the U.S. system to inadvertently lose their rights. The Principles do not, however, bar those jurisdictions that have compulsory joinder rules from applying them. Thus, in jurisdictions that have adopted the Principles, and that do not impose compulsory joinder, plaintiffs may—but are not required to—present all claims arising out of the transaction, including those that sound in foreign law. Similarly, unless forum law provides otherwise, defendants may—but need not—present counterclaims arising under foreign laws. As a result, parties who wish to resolve all their claims in a single court may do so, but they cannot use preclusion law to curtail other parties’ abilities to preserve their claims. See also § 223(6) (limiting the preclusive effect of decisions on coordination and judgments in coordinated actions).

**Illustration:**

2. KCo. sues Thumbnail Inc. in Patria, where Thumbnail is resident. KCo. claims that Thumbnail’s visual search engine, which displayed search results as thumbnail pictures, violates KCo.’s worldwide copyrights in the pictures. Because Thumbnail is subject to personal jurisdiction in Patria for any claim (§ 201), KCo. can, in addition to its claims under Patrian law, add copyright claims based on the laws of all of the countries in which Thumbnail Inc.’s search results are available. Alternatively, Thumbnail could ask for declarations that KCo.’s foreign rights are not being violated.

If Thumbnail regards KCo.'s activities as anticompetitive, it could defend on the ground of copyright misuse and could add claims based on competition law in the countries in which it is accused of copyright infringement. However, if the court determines that the case is mainly about anticompetitive conduct, it could decline to exercise supplemental authority (§ 212(2)) and remit the competition issues to a more suitable court.

KCo. could try to thwart consolidation by asserting claims that Thumbnail's patents on its search engines are invalid, and then claiming that consolidation is inappropriate because these claims should be litigated in a court expert in patent law or in the fora of the States where the patents are registered. Under § 212, the court could determine that the patent claims are not transactionally related to the copyright claims and decline to exercise authority over them, while still retaining all copyright claims, defenses, and counterclaims. If the patent claims are asserted elsewhere, and one of the parties moves for coordination, the cases could be handled cooperatively.

If the forum's procedural law does not make joinder compulsory, Thumbnail would not be required to assert its competition claims in this court. It could equally choose to challenge KCo.'s anticompetitive conduct in separate suits, which would not fall within these Principles.

*h. Registered rights.* Section 212(4) proposes a special rule when the court of one State declares rights registered in another State invalid. The Principles set out a similar rule in § 211(2), when the claim is raised in the first instance by the plaintiff, and in § 213(3), when the issue of invalidity is

raised in a declaratory-judgment action. For further discussion, see § 213, Comment *c* and Reporters' Note 2. See also § 413(2) (enforcement of determinations of invalidity).

### REPORTERS' NOTES

*1. Transactional relationship.* This approach is similar to the transaction test for claim preclusion as illustrated in the Restatement Second, Judgments § 24 and Comment *a*. Although the Brussels Regulation does not expressly deal with this issue, it contemplates consolidation of related claims in art. 28, which allows courts other than the one first seized to suspend proceedings when related claims are pending in several fora. However, the practice has been limited in patent litigation. See Case C-593/03, *Roche Nederland BV v. Primus*, [2007] F.S.R. 5.

*2. Judicial acceptance of foreign-law claims that arise from transactions that also implicate local rights.* For cases, accepting jurisdiction over foreign law claims, see, e.g., *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.*, 145 F.3d 481, 491-92 (2d Cir. 1998); *Aztech Sys. Pte Ltd. v. Creative Tech. Ltd.*, [1996] 1 S.L.R. 683 (High Ct. 1995) (Sing.); *Creative Tech. Ltd. v. Aztech Sys. Pte. Ltd.*, [1997] 1 S.L.R. 621 (C.A.) (Sing.). Illustration 1 is based on the facts of *Mars Inc. v. Kabushiki-Kaisha Nippon Conlux*, 24 F.3d 1368 (Fed. Cir. 1994), where the courts took an opposite approach to the one advocated by the Principles: the Federal Circuit affirmed the district court's refusal to exercise supplemental jurisdiction over the Japanese infringement claim. See also *Voda v Cordis*, \_\_\_F.3d \_\_\_ (Fed. Cir. 2007).

*3. Discretion to dismiss supplemental claims.* This procedure is derived from U.S. federal law, see 28 U.S.C. § 1367(c), which similarly weighs against other interests the interest in providing a court for consolidating a multiplicity of claims that may be sourced in the law of more than one sovereign.

The discretion to refuse to expand the court's subject-matter reach should be distinguished from considerations of where a consolidated case is best heard. That decision, akin to determinations of forum non conveniens, is controlled by §§ 222-223. On such dismissals, see, e.g.,

Richard Fentiman, *Intellectual Property and the Conflict of Laws*, A Study on Behalf of the European Commission Directorate General XV, Chapter V, p. 7 (final report, Nov. 1995) (English courts).

4. *Illustration 2*. The illustration is loosely based on *Kelly v. Arriba Soft Corp.*, 336 F.3d 811 (9th Cir. 2003).

### § 213. Declaratory Judgments

**(1) An action for a declaratory judgment other than one to declare a registered right invalid may be brought on the same terms as an action seeking substantive relief.**

**(2) Except as provided in subsection (3), a proceeding brought to obtain a declaration of the invalidity of a registered right may be brought only in the State of registration.**

**(3) An action to declare the invalidity of the registration of rights arising in multiple States may be brought in the State or States in which the defendant is resident, but the effect of the judgment on rights registered in States other than the forum will be limited to the parties to the action.**

**(4) A court exercising jurisdiction under this Section may not exercise coordination authority under § 221.**

#### **Comment:**

*a. Declaratory judgments generally.* Actions for declarations of rights are particularly important to the intellectual property industries because commercialization often entails substantial investments. Without the ability to bring “negative declarations” that permit a court to declare a particular product unprotected or within the scope of a license, these investments would have to be made without knowing

whether the information was actually available for the investor's use. Should the investor guess wrong, sunk resources would be wasted. At the same time, it is not desirable for investors to shy away from using material that is in the public domain: there is, in fact, a strong public interest in the exploitation of material that is not properly the subject of intellectual property protection. Section 213 furthers these private and public goals by creating an avenue for clarifying rights. Declaratory judgments can also be useful to rights holders because they provide a mechanism for clarifying relationships.

*b. Declarations as to the validity of registered rights.* There is substantial sentiment that issues regarding the validity of a registered right, particularly a patent right, should be adjudicated in the courts in the State in which the right is registered. Indeed, there are regional agreements that so provide. Some countries further channel validity disputes into special fora. Although the Principles do not include a blanket prohibition on the adjudication of matters involving a foreign State's registered rights, these adjudications receive special treatment. When the sole objective of the litigation is a declaration of invalidity of rights under the law of a particular State, § 213(2) requires adjudication of the case in the courts in that State. In cases where rights under the laws of multiple States are in issue, § 213(3) permits the suit only in the right holder's residence(s), but limits the effect of the judgment to the parties.

*c. Effect of the declaration.* When a court declares rights registered in other States invalid, the effect runs only between the parties to the litigation. See § 213(3). Moreover, the Principles apply this solution to any determination of invalidity, including one resulting when the issue of validity arises by way of defenses such as to an infringement action or to a contract claim. See §§ 211(2), 212(4), and 413(2). This rule

represents a compromise: on the one hand, States are reluctant to second guess the acts of foreign public authorities; on the other hand, there are efficiency gains. Furthermore, separating adjudication of validity from infringement can have substantive ramifications because it prevents a court from hearing all of the evidence relevant to the action and from using its understanding of how a technology is utilized to inform its decision on the scope of the right. Bifurcating validity and infringement can also increase the parties' costs. Accordingly, § 213(3) allows a court in one State to adjudicate the validity of registered rights in another State, but only to clarify the rights of the parties among themselves. In cases where it appears that validity issues are being raised to thwart efficient adjudication, a court may exercise its authority under § 212(3) to sever those parts of the case for determination in a more appropriate court. Should the parties prefer an adjudication of rights against the world, the appropriate approach is to bring actions in each State in which the right is registered, and then move for cooperative treatment under § 222.

*d. Declaratory judgments and coordination authority under § 221.* Declaratory-judgment actions create unique forum-shopping opportunities to those who would otherwise be defendants in infringement actions. If the intellectual property rights holder is amenable to suit in a court that moves its dockets slowly, the would-be defendant could file a declaratory suit there in order to block adjudication of the infringement action in a court more likely to award injunctive relief quickly. To avoid misuse of declaratory-judgment actions, §§ 213(4) and 221(5) refrain from treating a court hearing a declaratory case as the coordination court. In this way, the Principles allow a rights holder to trump the declaratory plaintiff's choice by bringing its own action; the

court where the rights holder sues is then treated as the court first seized.

**Illustration:**

1. PaulCo, a Patrian corporation, brings an action against ClaraCo in Xandia, which is ClaraCo's principal place of business, for a declaration that ClaraCo's Xandian, Patrian, Tertian, and Quatrian patents are invalid. Xandian courts are overburdened and known for delay. Subsequently, ClaraCo brings an infringement suit against PaulCo in Patria, alleging that these patents are being infringed.

Under these Principles, Patria will be considered the court with the authority to coordinate and will have primary authority to determine coordination issues. When Xandia's court reaches the case, it should suspend proceedings pending the Patrian disposition.

*e. Justiciability.* Because declarations of validity can bind only parties to the litigation, a patent is vulnerable to successive attacks. The risk of successive suits reduces patent value, and the cost of these actions may erode the patentee's ability to successfully defend. To prevent the patent from becoming an "invitation to litigate," a jurisdiction may impose a requirement that the declaratory plaintiff in an invalidity action demonstrate an interest in the suit, such as a credible threat of an infringement action or a substantial investment in patent-specific technology. Section 213 is not intended to change such domestic rules on justiciability.

**REPORTERS' NOTES**

1. *Declaratory-judgment actions.* The ability to bring declaratory-judgment actions on such issues as validity, infringement, ownership,

and assignment is well recognized. See, e.g., *Conmed Corp. v. ERBE Electromedizin GmbH*, 129 F. Supp. 2d 461 (N.D.N.Y. 2001) (patents); *Sumitomo Elec. Indus., Ltd. v. Corning, Inc.*, 169 F. Supp. 2d 440 (M.D.N.C. 2001) (patents); *Hal Roach Studios, Inc. v. Richard Feiner & Co.*, 896 F. 2d 1542, 1555-56 (9th Cir. 1990) (copyrights); *Bryan Ashley Int'l, Inc. v. Shelby Williams Indus., Inc.*, 932 F. Supp. 290, 292-93 (S.D. Fla. 1996) (copyrights); *Starter Corp. v. Converse, Inc.*, 84 F. 3d 592 (2d Cir. 1996) (trademarks); *Caesar's World, Inc. v. Milanian*, 247 F. Supp. 2d 1171 (D. Nev. 2003) (trademarks). The Principles rely on local rules to determine standing; enforcement is controlled by Chapter 4.

2. *Patent litigation.* In patent litigation, the principal use of declaratory judgments is likely to be as a mechanism for challenging patent validity. The importance of such actions is illustrated by the facts of *Polaroid Corp. v. Eastman Kodak Co.*, 789 F.2d 1556, 1557 (Fed. Cir. 1986). The improvident investment Kodak made in instant cameras could have been avoided had Polaroid's rights been clarified earlier, for example through a declaratory-judgment action. Instead, Polaroid brought an infringement action after Kodak started selling instant cameras. Although Polaroid sued for infringement quickly, the suit took many years to decide. See *id.* at 1557. By the time the patent was held valid and infringed, Kodak had invested heavily in the field and many of its employees and customers were seriously affected by the resulting judgment, see Daniel F. Cuff, *Kodak Reports a Loss After Taking Writeoff*, N.Y. Times, Feb. 19, 1986, at D6 (forced withdrawal from instant-camera field after patent ruling costing Kodak \$494 million); Thomas J. Lueck, *The Talk of Rochester; A City Nervously Waits for Layoff News*, N.Y. Times, Feb. 14, 1986, at B1 (describing losses to Kodak and its workers resulting from enforcement of Polaroid's instant-camera patent against Kodak). Cf. *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994) ("Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible. To that end, defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement.")

A declaration of invalidity should be distinguished from a declaration of noninfringement. A decision of the Swiss Supreme Court, Bundesgericht [BGer] [Federal Court], Feb. 21, 2003, 129 Entscheidungen des Schweizerischen Bundesgerichts [BGE] III 295 (X AG v. Y SpA) (Switz.), available at <http://www.bger.ch>, is consistent with § 213(3). Notwithstanding art. 22(4) of the Brussels Regulation and art. 16 of the Lugano Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters, Sept. 16, 1988, 28 I.L.M. 620, available at <http://europa.eu.int/eur-lex/lex/LexUriServ/LexUriServ.do?uri=CELEX:41988A0592:EN:HTML> (hereinafter Lugano Convention), which give exclusive authority to the courts of the State in which a right is registered to pass on the validity of the right, the Supreme Court accepted Swiss jurisdiction over an action seeking a declaration of the noninfringement of Belgian, Dutch, French, English, Italian, Swedish, Spanish, and German patent rights deriving from the same European patent grant. The Court decided that, in view of the cease-and-desist notice served on the Italian declaratory-judgment plaintiff by the Swiss patentee, the Italian alleged infringer had a legitimate interest in an early determination of the infringement or noninfringement from the court of the patentee's domicile. The court's ruling extended to all claims under all national patent rights in Belgium, the Netherlands, the UK, France, Italy, Sweden, and Spain, with the sole exception of the German patent rights, because a litigation was already pending in Germany between the parties, involving the German patent rights. Consolidating declaratory actions before one court, at least where the patent rights at issue are identical, is desirable, as each territorial right is based on the grant of a single title of intellectual property right such as the European patent. The Swiss judgment also calls into question the traditional view that the courts of a foreign State would not have the technical skill needed to adjudicate the infringement of a national patent. Counsel and experts' opinions can help the court understand the tests current under the applicable law and the practice of the other jurisdiction. Nonetheless, a case could be made that European patent rights are based on a substantive law that is harmonized to a larger extent than is required by the TRIPS Agreement. Note, however, that under the Principles, the German court would have coordination authority because an infringement action was initially filed

there. That court could, under § 222, consolidate the worldwide dispute in Switzerland, leading to the identical outcome.

*3. Illustration 1.* The illustration is loosely based on Bundesgericht [BGer] [Federal Court], Feb. 21, 2003, 129 Entscheidungen des Schweizerischen Bundesgerichts [BGE] III 295 (X AG v. Y SpA) (Switz.), available at <http://www.bger.ch>. The ECJ's recent decision in Case C-593/03, Roche Nederland BV v. Primus, [2007] F.S.R. 5, may call into question future interpretations of the Lugano Convention.

### § 214. Provisional and Protective Measures

**(1) A court has jurisdiction to order any provisional or protective measures consistent with its authority under §§ 201-207 and §§ 221-223 of these Principles.**

**(2) The courts in any States in which intellectual property is registered or in which tangible property is located have jurisdiction to order any provisional or protective measures with respect to that property. The measure must be limited to the territory of that State.**

**(3) A person having custody or control of goods in transit, even if not an infringer by the law of the State in which the goods are temporarily located, may be the subject of an action for an order of temporary detention of the goods while the true owner or owners are identified and joined to the proceedings.**

#### **Comment:**

*a. Transborder relief.* These Principles cannot change domestic law to give courts authority to provide provisional relief when such authority is lacking under local law. Thus, for example, if the Brussels Regulation prohibits transbor-

der injunctions or U.S. law prohibits seizure of non-U.S. property, this provision cannot be given full effect. However, if such authority is provided by local law, § 214(1) gives a court with appropriate jurisdiction over a defendant (as defined by these Principles) plenary authority to order provisional or protective measures, including ex parte relief and the issuance of transborder injunctions. This provision is also meant to suggest that, as global disputes proliferate and are thought to require coordination, the subsidiary power to order provisional relief is also necessary.

It is contemplated that this authority should be exercised by the court that has jurisdiction over the merits of the case; it can also be exercised by the court in which the dispute on the merits will presumptively be filed.

*b. Local Relief.* Section 214(2) gives parties the flexibility to protect their interests in jurisdictions other than the one in which the action is pending or will be filed. As noted above, the court where the case has been or will presumptively be filed has plenary authority to award preliminary relief, including transborder injunctive relief, consistent with its adjudicatory authority. In addition, the parties may obtain local preliminary relief from other courts. However, these courts have authority only with respect to local property, tangible and intellectual.

In making its decision on ordering relief, the court will consider local law as well as local public policy.

**Illustration:**

1. A, a Patrian resident, claims to hold the rights of reproduction, distribution, and communication to the public in a sound recording of Patrian folk music. B, a resident of Xandia, uploads the content of the CD

without authorization to a server maintained by C, a Xandian, in Xandia. A sues B and C in Xandia.

If A can show that, under Xandian law, he is entitled to provisional relief, the Xandian court can enjoin B and C from making the music available anywhere *pendente lite*. If A finds that B is distributing CDs of the music in Patria, he can also ask the Patrian court to take control of the CD stock. In deciding whether to take control over the property, the court can consider whether restricting the distribution of the CDs violates Patrian public policy.

*c. Relationship between § 214(2) and §§ 222, 223.* Section 214(2) can be viewed as an exception to the rules that require courts to suspend proceedings pending adjudication in the coordination court or the consolidation court because they provide other tribunals with authority over the dispute. In the case of provisional remedies to preserve evidence or the status quo, however, time is often of the essence; the court best situated to achieve those goals is generally the court where the intellectual property or physical goods are located.

*d. Protective seizures.* Section 214(3) addresses the case of goods in transit, that is, tangible goods shipped from one State, across another State, to be sold in a third State where the sale infringes local intellectual property rights. The goods can be seized where they are found, even if they were just passing through on their way to sale in another State.

## REPORTERS' NOTES

*1. Controversy over cross-border injunctions.* The availability of transborder measures under the Brussels Regulation has been hotly contested. See, e.g., John Gladstone Mills III, A Transnational Patent Convention for the Acquisition and Enforcement of International

Rights, 84 J. Pat. & Trademark Off. Soc’y 83, 85 (2002); Fritz Blumer, Jurisdiction and Recognition in Transatlantic Patent Litigation, 9 Tex. Intell. Prop. L.J. 329, 336 (2001). The European Court of Justice’s decisions in Case C-593/03, Roche Nederland BV v. Primus, [2007] F.S.R. 5, and Case C-4/03, Gesellschaft für Antriebstechnik mbH & Co KG v Lamellen und Kupplungsbau Beteiligungs KG, [2006] F.S.R. 45 cast doubt on the authority of an EU court to grant relief regarding foreign patent rights. It could therefore be argued that this power should be eschewed by the Principles. One reason for rejecting a more restrictive approach is that the problems involved in cross-border cases have generally concerned patent rights in the European Union, where the resolution of challenges to validity is subject to special jurisdictional limitations under the Brussels Regulation. The AIPPI appears to recognize a need for cross-border orders generally, indicating that “[t]he court making a judgment should determine which of the available remedies are to be applied,” but that “any enforcement of a judgment in another country shall be subject to the law of that country . . . .” AIPPI, Q174 Resolution, art. 3. This is essentially the approach followed here.

2. *Utility of cross-border provisional relief.* The time value of information and the inability to return (or forget) what has been learned makes the availability of preliminary relief particularly important in intellectual property disputes. This provision allows courts to use whatever flexibility their national law permits in shaping interim orders to assure that the status quo is maintained during the pendency of adjudication. Such relief can also be used to secure assets from which the judgment will be satisfied. Some States do not permit courts to order worldwide orders to secure assets (Mareva injunctions). See, e.g., Grupo Mexicano de Desarrollo S.A. v. Alliance Bond Fund Inc., 527 U.S. 308 (1999). The court’s power is limited to securing assets; it does not thereby obtain jurisdiction over the merits of the claim. Given the ability of the parties to obtain rapid execution of judgments rendered in accordance with these Principles (§ 401), where the executing court has determined that the Principles apply, it is not necessary to make the asset-conserving court the court that hears the merits in order to ensure practical recovery. Nothing in these Principles would require jurisdictions to change their laws. However, the absence of this authority might affect the parties’ choice of court.

3. *Local Relief*: The power of a court other than the one entertaining the dispute to order provisional relief with respect to people or property within the forum State is recognized by the ALI/UNIDROIT Principles of Transnational Civil Procedure, Principle 2.3.

4. *Protective seizures*. For examples of such actions in the United Kingdom, see, e.g., *Norwich Pharmacal Co. v. Customs & Excise Comm'rs*, [1974] A.C. 133, 146 (H.L.); *Washburn v. Cunard*, [1889] 6 R.P.C. 398; and *Smith, Kline & French Labs. Ltd. v. RD Harbottle (Mercantile) Ltd.*, [1980] R.P.C. 363 (Ch. D. 1979).

### **Chapter Three**

## **Jurisdiction over Simplification: Coordinating Multiterritorial Actions**

### **§ 221. Coordination Authority of the Court First Seized with an Action Involving the Party Seeking Coordination**

**(1) Any party engaged in actions involving the same transaction, occurrence, or series of transactions or occurrences in the courts in different States may move to have the actions coordinated through cooperation or consolidation under these Principles. The motion must be timely submitted and specify the actions to be coordinated.**

**(a) If the parties in all the actions are the same, the motion should be made in the court first seized.**

**(b) If the parties in all the actions are not the same, the motion should be made in the court first seized with an action involving the moving party.**

**(c) Where permitted by local law, the court first seized may consider coordination on its own motion, affording the parties an opportunity to be heard in the matter.**

**(2) If the court designated by subsection (1) finds that some or all of the claims in the specified actions in other courts arise out of the same transaction, occurrence, or series of transactions or occurrences as the claims before the court, the court should assert coordination authority over those actions and decide, in accordance with § 222,**

**whether the actions will proceed through cooperation or consolidation or a combination of the two.**

**(3) Any other court before which an action is pending that contains claims that the designated court has deemed to fall within its coordination authority should follow the procedures set out in § 223.**

**(4) A court is “seized”:**

**(a) when the document instituting the action, or an equivalent document, is filed with the court, provided that the plaintiff subsequently takes the required steps to provide notice to the defendant; or**

**(b) if the document has to be served before being filed with the court, when it is served or received by the authority responsible for service, whichever is earlier, provided that the plaintiff subsequently files the document with the court.**

**(5) A court seized with a coercive action seeking substantive relief is “first seized” when:**

**(a) the subject matter of the action is not within another tribunal’s exclusive jurisdiction under § 202; and**

**(b) no other court had previously been seized with a coercive action seeking substantive relief; and**

**(c) in the case of actions between different parties, no other court has a pending motion to coordinate actions under subsection (1).**

**(6) If the court in which a motion to coordinate is pending fails within a reasonable time to take the necessary steps to act on the motion, or if the court before which actions have been consolidated cannot be expected to render a decision within a reasonable time, then the nondesignated court or courts may proceed to adjudicate.**

**Comment:**

*a. Definitions of coordination and coercive action.* The Principles use the generic term “coordination” to refer to two approaches to simplifying and reducing the cost of multiterritorial intellectual property litigation: consolidating several actions and facilitating cooperation among the courts of more than one State. (Parallel actions in courts within a single State are left to the State’s own internal law.) Coordination requires a determination that the actions are sufficiently related, as well as a decision on the form of coordination (whether consolidation or cooperation).

A “coercive action” is any action seeking substantive relief that is not a declaratory-judgment action.

*b. Multiple actions.* For many disputes, all of the actions will be between the same parties. However, as the Illustrative Overview makes clear, this is not always the case. Section 221 builds on the *lis pendens* doctrine to assign the coordination role to the court first seized with a coercive action, or, in the case of actions involving different parties, if there is no court entertaining a coordination motion involving any of the same parties. The court designated by this provision will not necessarily try the case. If cooperation is the chosen mode of coordination, then each court will keep its part of the case. If consolidation is chosen, the designated court will have the discretion—informed by the par-

ties—to find a court well suited to resolve the entire dispute. In some cases, a combined approach may be best.

To avoid delay, motions to coordinate must be made in a timely manner, which will usually be no later than the time of the first defense on the merits. If the motion to coordinate is made later than the first defense on the merits, the court should require the party making the motion to justify the delay and should assure itself that ruling favorably on the motion will not prejudice the interests of other litigants. Typically, the justification would entail a showing that the party was unaware that the other actions for which coordination is sought had been, or would be, filed. If the court determines that a motion to consolidate should not be granted because delayed consolidation would cause prejudice, it should entertain the parties' motion to consider whether cooperation would nonetheless be appropriate (or, where local law permits, address the question on its own motion).

*c. Scope of coordination authority.* Section 221(2) clarifies the scope of the requirement that the designated court consider coordination. It utilizes the same concept of “claims aris[ing] out of the same transaction, occurrence, or series of transactions or occurrences” that was developed in § 212, Comment *d*. Section 221 avoids the “cause of action” terminology that has proved ambiguous in the United States. The “same transaction” concept goes beyond pure parallelism to draw into the court first seized all actions that, from efficiency and fairness perspectives, should be tried in a coordinated fashion. Thus, disputes over intellectual property rights concerning the same creative product, work, or material should be regarded as arising from the same series of occurrences.

**Illustrations:**

1. GizmoCo, a Freedonian company, and WidgetteCo, a Patrian firm, both market a line of widgets worldwide. Each widget comes with a user's manual that describes its care and use. WidgetteCo brings an action against GizmoCo in Freedonia, claiming that GizmoCo's newest widget infringes WidgetteCo's Freedonian patent. GizmoCo retaliates with an action in Patria seeking a declaration that WidgetteCo's Patrian patent is invalid and not infringed, and asserting a claim that WidgetteCo's latest user's manual infringes the copyright in Gizmo's manual. One of the parties wishes to have the dispute treated in a coordinated fashion.

The Freedonian court has authority to coordinate under § 221(2), as all of the claims relate to the same set of occurrences: alleged infringements of rights surrounding the marketing of widgets. If there are other claims (for example, trademark claims) relating to the widget, these could be asserted under § 212 as supplemental claims and brought within the Freedonian court's coordination authority.

2. DanceCo, a Patrian corporation, has a contract with X, a Xandian choreographer, to perform X's dances within Patria. DanceCo taped a performance in Patria for broadcast on television, knowing that the signal could, and would, be picked up in neighboring Xandia. X sues DanceCo in Patria for infringement; DanceCo later sues X in Xandia for a declaration that there is no infringement, as the contract permits this activity and does not require DanceCo to take steps to avoid retransmission of the taped performance. One of the parties wishes to have the dispute treated in a coordinated fashion.

Since the court first seized is the Patrian court, that court is, as an initial matter, the one authorized to hear the infringement case (§ 221). Although the claims asserted in Xandia could be classified as contract claims, they arise from the same transaction that is the subject of the Patrian action. The Patrian court will decide whether coordinated treatment is appropriate. If so, it will determine where and how the infringement claims should be adjudicated, in accordance with § 222. It may take over the entire dispute, in which case the Xandian court will suspend proceedings in accordance with § 223. Alternatively, the two courts may enter into a cooperative arrangement. Were the Xandian court to render a judgment without regard to the Principles, the judgment might not be entitled to enforcement. See § 403(2)(c).

Section 221(1)(c) also gives the designated court authority to consider coordination on its own motion. The efficiencies that can be achieved are as much an interest of the judicial system as they are of the parties. However, both cooperation and consolidation require participation by the parties; see, e.g., §§ 222(2) and (3), § 222, Comment *d*, and § 223, Comment *b*. Accordingly, the court's main role is to make the parties aware of the possibilities; it is not likely that coordinated treatment can proceed without voluntary participation.

Because the designated court's authority extends initially only to the question of coordination, it need not have personal jurisdiction over all of the potential parties. The court that ultimately adjudicates an action involving a particular party must, however, have personal jurisdiction over that party.

*d. Exceptions.* There are several exceptions to the designated court's coordination authority.

(1) § 221(5)(b). These exceptions are designed to prevent a party from manipulating this system to cause delay. Under this exception, a noncoercive action—which is to say, a suit for a declaration of nonliability—does not trigger the court’s coordination authority. This exception is necessary to make sure that a would-be defendant cannot use the Principles’ generous concept of relatedness, which covers claims arising in more than one jurisdiction, as a means of preempting a plaintiff’s choice of court. In litigation involving information products, the selection of an initial court can be extremely important. Because information cannot easily be withdrawn once released, injunctions are essential; declaratory actions in courts hostile to preliminary injunctive relief can deprive rights holders of a critical remedy. In Europe for example, “torpedoes”—declaratory-judgment actions brought in courts recognized as particularly slow—have been used to prevent the courts in other European States from issuing transborder injunctions in patent cases. They may even be used to prevent local injunctions from issuing in other States. To prevent this especially corrosive type of forum-shopping, this provision allows a court seized with a coercive action to disregard the pendency of a declaratory claim in another court. Instead, the court hearing the declaratory case must suspend its proceedings and allow the court where the coercive action is pending to take coordination control over the suit. See also § 213, Comment *d*. If the coordination court decides that the case should be consolidated in another court but the declaratory action goes forward in the initial court, the declaratory judgment may be denied enforcement under § 403(2)(c).

**Illustration:**

3. DanceCo and X have the arrangements outlined in Illustration 2. However, DanceCo brings a dec-

laration of nonliability in Xandia before X sues in Patria.

Although the first suit arising from Dance Co and X's arrangement was filed in a court in Xandia, that court is not considered "first seized" within the meaning of the Principles.

(2) § 221(5)(a). This provision preserves party autonomy. Disputes that stem from activities subject to a contract with a choice-of-an-exclusive-court clause must be litigated in the court specified. See § 202. If the effect of enforcing the choice-of-court clause is inefficient, the parties can waive their rights under the clause.

A problem arises when there are conflicting choice-of-court provisions, each valid under § 202. In such cases, the definition of the court first seized in § 221(5) may not lead to an unambiguous solution: no matter which court is seized first with a coercive action, there will be another court that arguably has exclusive jurisdiction over the subject matter. In such cases, whichever court is seized first with a coercive action should regard itself as the court first seized for the purpose of this provision. That court should consider the effect of the divergent agreements as set out in § 202, Comment *e*.

(3) § 221(5)(c). This section is intended to avoid a situation in which multiple courts assert coordination authority over the case and issue contradictory orders that, ultimately, delay proceedings. Once one court takes on the task of determining that the dispute should be coordinated, all coordination decisions are left to that court.

(4) § 221(6). The last exception, § 221(6), gives the non-designated courts the authority to resume entertaining the

case if the coordination or consolidation court fails to act in a reasonable time.

(5) *Other forms of dispute resolution.* Administrative adjudication and arbitral proceedings are not directly controlled by these Principles, because the concerns animating these forms of dispute resolution are different. Administrative tribunals, such as customs courts, have limited authority, and, in some instances, process is truncated to facilitate speedy resolution. Accordingly, they are not fora in which actions should be coordinated. Parties opt for arbitration because they want to choose their judges and because they believe that arbitration will achieve more rapid resolution of the dispute. When a case is subject to arbitration, judicial proceedings should be stayed, no matter whether the arbitration is filed before or after the judicial case.

**Illustration:**

4. DanceCo and X, the parties of Illustration 2, have a contract in which a valid provision states that all disputes are to be resolved through arbitration. In that case, both courts will be required to suspend proceedings so that the dispute can be arbitrated. This is implicit in § 221(5).

*e. Reasonable time.* Reasonable time is measured by reference to pendency times for cases of similar complexity in the court in which the action is stayed.

**Illustration:**

5. The same facts as Illustration 2. If the Patrian court does not proceed within the time frame in which litigation of the same type would have been resolved in Xandia, the Xandian court may proceed with the case.

## REPORTERS' NOTES

1. *Multiple competent courts.* Americans are comfortable with solving the parallel-litigation problem by giving courts discretion to transfer cases to an appropriate court. See, e.g., 28 U.S.C. §§ 1404, 1407. However, there is profound disagreement on this issue in other places. The practice in the European Union, for example, is to give absolute preference to the court first seized. Once it is determined that this court has jurisdiction to hear a case, other courts entertaining the same cause of action must suspend proceedings, and if the first case goes forward they must ultimately decline jurisdiction. Brussels Regulation art. 27. Courts entertaining related causes of action may, upon application of the parties, also stay out, so long as the court first seized has jurisdiction over these related claims and the actions “are so closely connected that it is expedient to hear and determine them together to avoid the risk of irreconcilable judgments resulting from separate proceedings,” *id.* art. 28. Section 221 is somewhat similar. However, the choice of court does not end with the court first seized. Once the case is constituted, subsequent provisions give the court authority to move the case to a more appropriate court (§ 222).

2. *Scope of coordination.* The Principles avoid the term “causes of action,” because it can be confusing. Instead they rely on the transactional approach discussed in connection with § 212.

3. *“Torpedo” problems.* The ALI Foreign Judgments Project recognizes a broadly defined doctrine of *lis pendens* (or coordination authority), such as the one defined here, which covers claims arising in more than one jurisdiction, ALI Foreign Judgments Project § 11(a). It recognizes that this procedure could be used by a potential defendant to preempt a plaintiff’s choice of court and to defeat the jurisdiction of the most appropriate court. See ALI Foreign Judgments Project, §§ 11(b), 5(c)(iii)-(iv). See also Robin Jacob, *International Intellectual Property Litigation in the Next Millennium*, 32 *Case W. Res. J. Int’l L.* 507, 511-12 (1999); Paul A. Coletti, *No Relief in Sight: Difficulties in Obtaining Judgments in Europe Using EPO Issued Patents*, 81 *J. Pat. & Trademark Off. Soc’y* 351, 367 (1999); Trevor C. Hartley, *How to Abuse the Law and (Maybe) Come Out on Top: Bad-faith Proceedings Under the Brussels Jurisdiction and*

Judgments Convention, in *Law and Justice in a Multistate World: Essays in Honor of Arthur T. von Mehren* 73 (James A R Nafziger & Symeon C. Symeonides eds., 2002). Requiring the court hearing the declaratory case to suspend its proceedings and allow the coercive action to go forward is in accordance with practice in the United States; see, e.g., *Elbex Video, Ltd. v. Tecton, Ltd.*, 57 U.S.P.Q.2d 1947, 1949 (S.D.N.Y. 2000) (agreeing to hear a second-filed coercive action on the ground that circumstances demonstrated that the first-filed declaratory-judgment action had been filed “in order to deprive plaintiff of its choice of forum”).

4. *Reliance on the court first seized.* It can be argued that it is wrong to give control over the litigation to the court first seized because this approach promotes races to the courthouse. Ideally, decisions on coordination should be made by a sitting body. For example, consolidation in the United States is controlled by the Panel on Multidistrict Litigation in the United States; see 28 U.S.C. § 1407. However, such a body cannot be created in Principles such as these. Using the court first seized has the advantage of relative simplicity. To the extent that multinational litigation often ends when the plaintiff wins an action in the defendant’s largest market, this choice is no worse than the result under current practice. Indeed, it is significantly better because the court first seized starts with only coordination authority; it may not be the court that ultimately decides the case.

5. *Determining when a court is seized.* It is important to prevent ambiguity as to the time when a court is seized. Section 221(4) is adapted from art. 30 of the Brussels Regulation on the theory that it is based on substantial experience with the 1968 Brussels Convention.

## **§ 222. Coordination Among Courts and Consolidation of Territorial Claims by the Court First Seized**

**(1) If the court designated by § 221 decides that related actions will be coordinated, it then determines whether coordination should proceed through cooperation, consolidation, or a combina-**

**tion of the two. Considerations bearing on this matter include:**

**(a) the convenience and efficiency of centralized adjudication versus the convenience and efficiency of cooperation;**

**(b) the cost of pursuing related actions in multiple courts;**

**(c) the need for specific expertise in light of the complexity, familiarity, and novelty of the legal issues;**

**(d) the time required to resolve all the claims;**

**(e) the relative resources of the parties;**

**(f) whether there is a court with adjudicatory authority over all the parties under §§ 201-207;**

**(g) whether adjudication by multiple courts could result in inconsistent judgments; and**

**(h) whether the judgment resulting from consolidated proceedings will be enforceable in other States.**

**(2) If the court determines that coordination of all or part of the dispute is appropriate, it should invite the parties to identify other related pending actions between any of the parties to the dispute and other litigants that the court should, in order to promote efficiency, consider for inclusion in the coordination plan.**

**(3) If the court determines that cooperative resolution of all or part of the dispute is appropri-**

**ate, the court should so inform all courts involved in the coordination and order the parties to draw up a plan for resolving the dispute in a just and expeditious manner.**

**(4) If the court determines that consolidation of all or part of the dispute is appropriate, the court must next decide, in a timely manner, whether to retain jurisdiction over the consolidated action or instead to suspend proceedings in favor of another court. Considerations bearing on this matter include:**

**(a) which State has the closest connection to the dispute; in deciding this the court should take into account:**

**(i) any enforceable choice-of-court clauses in contracts relevant to the dispute between or among any of the parties;**

**(ii) the States in which the parties reside;**

**(iii) the relative resources of the parties;**

**(iv) which States' intellectual property rights are in issue; and**

**(v) the State whose law governs initial title to the intellectual property rights or other rights in issue under §§ 311-313;**

**(b) which court has authority to adjudicate the fullest scope of the consolidated action, taking into account the court's authority over the subject matter and the parties;**

**(c) the difficulty of managing the litigation, including the complexity, familiarity, and novelty of the legal issues, and, particularly in patent cases, the expertise of each potential consolidation court;**

**(d) the availability of process to summon and examine witnesses and obtain non-testimonial evidence, and the location of the evidence and of witnesses;**

**(e) each potential consolidation court's power to award an adequate remedy; and**

**(f) the availability of judicial process consistent with international norms.**

**(5) The issues of cooperation and consolidation should be decided in a timely manner.**

**(6) A party seeking to appeal a decision on coordination or consolidation must do so at the first opportunity provided by the jurisdiction of the court that made the decision. Failure to do so constitutes a waiver of the right to appeal the decision.**

**Comment:**

*a. Coordination.* Once the court with coordination authority has determined under § 221 that adjudication of the dispute should be coordinated, § 222 comes into play. This section does three things. First, it sets out criteria for the coordination court to determine how the dispute should be adjudicated: by cooperation or by consolidation. Second, it instructs the coordination court to look beyond the disputes between the parties to determine whether any of these litigants are involved in other disputes that could use-

fully be combined with the litigation before it. Third, it tells the coordination court what guidance it must give in managing the dispute. In the case of cooperation, it must help the parties set up a cooperative schedule; in the case of consolidation, it must choose the consolidation court.

*b. The form of coordinated adjudication.* A court faced with a motion to coordinate has four options: (1) to deny the motion; (2) to institute cooperation among the relevant courts; (3) to order consolidation of all or part of the dispute before a single court; or (4) to utilize a combination of cooperation and consolidation. These Principles do not favor any particular method of coordination. Consolidation is more likely to conserve resources and lead to more timely and coherent adjudication. Cooperation may be easier for a court to implement, especially when registered rights are at stake and in jurisdictions where legislative intervention would be required to expand the court's authority over the parties or the dispute or to recognize the judgment. It will typically take the form of allowing each court to continue adjudication of its part of the dispute. However, the coordination court may streamline the process, for example, by centralizing the taking of evidence and finding of facts, determining the order in which the issues will be considered, or otherwise structuring the way in which the case is litigated.

**Illustrations:**

1. GizmoCo, a Freedonian company, and WidgetteCo, a Patrian firm, both market a line of widgets worldwide. Each widget comes with a user's manual that describes its care and use. WidgetteCo brings an action against GizmoCo in Freedonia, claiming that GizmoCo's newest widget infringes WidgetteCo's Freedonian patent. GizmoCo retaliates with counterclaims,

asserting that WidgetteCo is infringing the copyright in Gizmo's latest manual and asking for a declaration that GizmoCo's Freedomian patent is invalid. Gizmo also initiates a suit in Patria for copyright infringement there and for a declaration that WidegetteCo's Patrian patent is invalid and not infringed. A party moves for coordinated treatment.

The joinder of claims in each court is supported by § 212 because they arise from the same occurrences involving the marketing of the widgets. Under § 221, the Freedomian court, where the first action was filed, may take coordination authority and decide that further coordination is possible. Under § 222, it must next determine the form of coordination. If only copyright claims were at issue, consolidation would likely be the method most appropriate. However, because both cases raise patent-validity issues, cooperation may be the more prudent course.

If cooperation is chosen as the method of adjudication, the Freedomian court will, with the aid of the parties, set a schedule for adjudicating the factual and legal issues in the case. For example, the parties may agree to take evidence from the inventor or inventors in a single proceeding and use that examination in both validity suits; the parties may choose a single embodiment (or set of embodiments) of the invention to be used for the determination of patent infringement. Further, the parties may agree to be bound by one court's decision on infringement.

The court could also utilize a combined approach, in which the patent claims remain before State courts (which coordinate their activities), and copyright claims are consolidated before a single court.

2. Consider the Illustrative Overview, in which a file-sharing program is developed by JCo, which proceeds to divide exploitation up territorially. A single plaintiff, MajorMovieCo, sues the users in several locations.

These cases involve different parties, but § 221 contemplates the possibility that one of the parties will move for coordination. In this dispute, consolidation is appropriate because all the cases raise claims concerning the same subject matter and because the issues in all of them are whether file-sharing is infringing activity and whether the distribution of a program that facilitates file-sharing should be actionable on a theory of primary or secondary infringement liability. Furthermore, there is a strong risk that multiple adjudication will not yield a uniform resolution of the question whether JCo's file-sharing program should be available on the Internet. If, for example, India were to rule that the activity is an important avenue of public access and were to permit JCo to continue to operate, but Japan were to enjoin JCo from maintaining the program, each outcome could undermine the policies of the other State.

A party resisting consolidation could try to show that the laws of the relevant countries are significantly different on the issue of secondary liability. If there is strong reason to believe this is so, the designated court should consider adjudicating the factual part of the dispute in a single action and then allowing each State where claims are pending to consider the legal ramifications of the facts found. Or, if only one State's law on secondary liability is unclear, the court might provide for separate consideration of that part of the case. However, before structuring the litigation in this way, the coordi-

nation court must consider the possibility that this approach will yield inconsistent outcomes. If the cost of inconsistency is higher than the cost of clarifying the content of foreign law, then the case should be consolidated.

It should be recognized that cooperative or consolidated litigation will not necessarily lead to the application of the same law for all territories. See § 301 and 321. However, the consolidated approach should facilitate reconciliation of the potentially conflicting outcomes under each relevant State's law and give the parties guidance on how they can lawfully proceed on the Internet.

*c. Factors to be taken into account in determining the method of coordination.* The factors listed in § 222(1) aid the coordination court's determination of how the adjudication of a multiterritorial dispute should be coordinated. No one factor will be dispositive in every dispute, although there are likely to be cases where the choice is clear. Thus, a crucial factor is whether there is a court that has the adjudicatory authority to hear all or most of the entire dispute. Where there is no such court, cooperation will be the only method available to coordinate adjudication. For example, if a party seeks to declare patents in multiple countries invalid as against the world, the dispute cannot be consolidated in a single court under § 213. On the other hand, if that party confines the adjudication to declarations that run only between themselves, consolidation remains possible. In situations where all or some of the dispute can be heard in a single tribunal, the coordination court should consider issues such as convenience, cost, speed, and the effort to learn about the technology at issue; it should also weigh the benefits of particularized adjudication of each case against

the risk this will impose unnecessary expense and indeterminacy.

The decision on coordination also requires consideration of the relative resources of the parties: the distances they will be required to travel if the dispute is consolidated, as well as each party's ability to hire lawyers to deal with unfamiliar procedure, substantive law, and language, and to pursue its claims and defenses in the context of a larger dispute. Note that the relevant issue is how able the parties are to *deal* with these issues; not how these matters affect the *outcome*.

In addition, the coordination court should consider whether the legal issues posed are ones of first impression in any of the affected jurisdictions. While efficiency concerns might counsel consolidation of the claims, it may not be desirable for the consolidation court to apply a foreign law in anticipation of what that jurisdiction's highest court might ultimately rule. An alternative might be to certify the question to the foreign court. In the absence of such a procedure, cooperation rather than consolidation may be more solicitous of national sovereignty.

Cooperation is also preferable to consolidation when one of the actions within the scope of § 221 presents a multiplicity of claims, only some of which are common to the other actions. In such situations, the coordination court can decide that consolidated adjudication of the case involving the multiple unrelated claims does not contribute to overall efficiency.

In the final analysis, cases involving exploitations that have an impact on many jurisdictions simultaneously (such as Internet distributions) are likely to be the strongest candidates for consolidation, at least in situations where segmentation of the distribution chain is not possible.

*d. The roles of the parties and other courts.* Given that these are Principles and not legislation, the disputants are expected to take the leading oar in implementing these provisions. In many cases, it will be in the interest of all of the litigants to take a particular approach to streamlining the adjudication. However, there may be cases where the parties disagree on whether or how to coordinate the actions. In such cases, the court's determination of whether and how to coordinate should take into account the relative merits of the parties' arguments and the public interest in conserving judicial resources.

It would also be useful for the courts in which actions are pending to consult with one another to determine the most appropriate court. This is not mandated by the Principles, in large part because such consultation is not currently common. Such a requirement could, accordingly, lead to protracted delay and a new "torpedo" problem. Instead, the Principles utilize stays initiated by the parties. If delay becomes a problem, a court in which an action is stayed can revoke the stay.

**Illustration:**

3. Consider the Illustrative Overview: Major-MovieCo moves in the Japanese court to consolidate the actions brought elsewhere. Once the decision is made to consolidate, the parties will also bear the burden of moving for stays under § 223 in the tribunals in which related actions are pending. Although these Principles expand the bases of personal jurisdiction to facilitate consolidation (see § 206), in the absence of implementing legislation, it may be the case that parties asking for stays will be required to agree to waive objections to personal jurisdiction in the court chosen for consolidation. The courts considering stays could

also demand agreements on other matters. Thus, for example, if USCo wanted information from MajorMovieCo that would have been available through discovery in the United States but not in Japan, the stay could be granted subject to an agreement by the parties to furnish one another with equivalent discovery.

*e. Factors for determining the location of the suit.* In many States, courts are reluctant to dismiss suits unless the claims are pending elsewhere. This creates a de facto presumption that the designated court will hear the consolidated case. However, that court may transfer the case to another tribunal. This procedure not only adheres to a procedure akin to *lis pendens*, with which much of the world outside the United States is familiar, it also avoids the prospect that courts will handle the related cases in inconsistent ways. The factors that the court should consider include the following:

(1) *The closest connection to the dispute, § 222(4)(a).* Many of the cases likely to benefit from consolidation involve the “spider and web” configuration. In such situations, the most appropriate place to consolidate is likely to be the home of the spider (or the hub to which the spokes are attached). The main evidence in the case is likely to be found in that jurisdiction, and that court is in the best position to enforce the judgment and monitor compliance.

It is conceivable that the spider could center its web in a jurisdiction where process is slow or enforcement lax. In such circumstances, the case should not be consolidated in the spider’s home. Efficiency is an overarching consideration; see § 222(2). Further, under § 222(4)(f), consolidation should be in a court in a State that offers process consistent with international norms. The ALI/UNIDROIT project and the TRIPs Agreement afford examples of fair procedures.

Registered-rights cases should also be analyzed under this provision. A court entertaining an action largely centered around a challenge to the validity of a registered right should consider deferring to a court in the place of registration. In any other court, the adjudication of this right will affect only the parties under §§ 211-213 and 413.

This subsection is also relevant to contract cases. When there is only one enforceable choice-of-court clause relevant to the case, consolidation should be in the court chosen by the agreement. A problem arises, however, when there are multiple choice-of-court provisions, each valid under § 202, but which designate divergent fora. In such cases, the court should consider the factors set out in § 202, Comment *e*, along with the other factors in subsection (4)(a) to determine the consolidation court. If there is no choice-of-court clause in any contract, the case should be adjudicated in the court with the most significant relationship to the contract. This is determined by the residence of the parties, the rights that are the object of the contract, and the source of initial title.

Subsection (4)(a)(v) introduces the concept of the State of initial title, which is further developed in §§ 311-313 and accompanying commentary. The notion here is that intellectual property subject matter with an obvious national identity deserves special consideration. Because one of the principal functions of intellectual property law is to stimulate and shape the creativity of a nation's citizenry, the State of initial title has a strong interest in the dispute, and perhaps even insights, and access to the evidence, needed to resolve it.

(2) *Authority over the parties, § 222(4)(b)*. The court that ultimately adjudicates a dispute must have adjudicatory authority over all of the parties. In many instances where

the claims are related enough to consolidate, the Principles give several courts authority over all (or most of) the defendants. But in cases where there are significant differences in adjudicatory authority, the court chosen for consolidation should, other things—such as resources—being equal, be the court with adjudicatory power to hear as much of the worldwide dispute as is possible.

(3) *Authority over the subject matter, § 222(4)(b)*. Although these Principles facilitate consolidation, they do not require States whose courts adopt these Principles to alter the subject-matter jurisdiction of their courts. Accordingly, the court chosen should, all other things being equal, be one with the power to handle as much of the dispute as possible.

There may be cases where no court has authority over the entire dispute, but several courts could assert power over large parts of it. In such cases the coordination court should take account of where the most significant impact lies. Thus, while another court may have power over more parties (or more claims), the court may nonetheless choose a court in the State of the most significant impact. In such situations, the court should consider coordinating proceedings with the courts hearing the remainder of the dispute. If the problem is adjudicatory authority over the parties, they may be willing to waive jurisdictional objections in the interest of efficiency; when the problem is subject-matter authority, the parties may choose to enter into a settlement agreement resolving the claims outside the court's power.

**Illustration:**

4. Elena Inc., a Xandian trademark holder, discovers that a Patrian company is offering goods bearing a confusingly similar trademark over the Internet. Xandia's subject-matter jurisdiction does not extend to

foreign intellectual property claims, while Patrian courts would entertain the worldwide dispute. Elena Inc. files suit in Xandia and the defendant then files an action in Patria, seeking a declaratory judgment of noninfringement in Patria and in other jurisdictions. It asks the Xandian court to stay the case in favor of the Patrian court.

This Illustration involves a choice between hearing the case in the court where the impact of the activity is greatest or in the court with the widest subject-matter jurisdiction. The court should weigh the advantages of proceeding in each court; if Elena Inc. insists on pursuing the action in Xandia, it could consider waiving its claims in other jurisdictions.

(4) *Novel or complex issues, § 222(4)(c)*. Consolidation is greatly facilitated by the convergence of legal regimes because it becomes ever easier for courts to entertain foreign claims. Theories of law that are novel raise special issues, however, as only the jurisdiction whose law is at issue can authoritatively resolve the problem. In some situations, the best course will be to deny consolidation or to grant it on a partial basis (for example, leaving out the dispute involving the novel question) and cooperating with a court in the State in which the novel issue arises. In some situations, however, it may be possible to solve the problem by simply consolidating the case in a court in the State where the law is unsettled.

**Illustration:**

5. Under the facts of the Illustrative Overview, if Japanese courts have the competence to consider foreign copyright claims, then the case should be consolidated in Japan. JCo is the spider in this web and each

of the other defendants is subject to jurisdiction in Japan. If, however, Indian law on secondary liability is unclear, that part of the case can be dealt with separately (or with cooperation between the Indian and Japanese courts). Alternatively, the Japanese court should consider the possibility of consolidating the whole case in India.

(5) *Expertise in patent cases, § 222(4)(c)*. The Principles allow courts entertaining patent cases to transfer adjudication to courts with patent-law expertise. To the extent that patent laws involve highly technical issues that are resolved in different ways by different States, the court with expertise may well be the court where the right is registered. Thus cases that raise only patent issues under one State's laws should normally be resolved in courts in that State. Further, when a dispute involves patent rights in more than one State, a cooperative approach might be preferable to consolidation. In some situations, however, consolidation may be possible in a specialized patent court, such as the UK Patent Court, or in a general trial court where the appeal is to a specialized court, such as the United States Court of Appeals for the Federal Circuit. When litigation in multinational cases can be directed to systems with these types of fora, consolidation may be a more efficient method of adjudication.

(6) *The availability of process and remedies, § 222(4)(d) and (e)*. Experience demonstrates that fora can differ markedly in their capacity to clear their dockets. Accordingly, the coordination court should, other things being equal, choose a court where the case will be reached and resolved speedily.

Further, the coordination court must take into account the ability of the parties to develop their case fully, including the availability of devices to determine the identity of

parties (such as subpoena authority) and discovery devices necessary to establish facts relevant to particular claims or defenses. In this regard, the court should look not only at the procedures available in the court it is considering for consolidation, but also the extent to which that court will be able to draw on supplementary assistance from other courts. For example, the Hague Convention on the Taking of Evidence Abroad in Civil or Commercial Matters, Mar. 18, 1970, 847 U.N.T.S. 231, available at [http://www.hcch.net/index\\_en.php?act=conventions.text&cid=82](http://www.hcch.net/index_en.php?act=conventions.text&cid=82) (hereinafter Hague Evidence Convention) facilitates discovery within member States; in the United States, local discovery mechanisms may be available to assist in finding evidence for a suit litigated elsewhere. See also Council Regulation 1206/2001 of 28 May 2001 on Cooperation Between the Courts of the Member States in the Taking of Evidence in Civil or Commercial Matters, 2001 O.J. (L 174) 1 (EC), available at [http://ec.europa.eu/justice\\_home/judicialatlas-civil/html/pdf/oj\\_l174\\_20010627\\_en.pdf](http://ec.europa.eu/justice_home/judicialatlas-civil/html/pdf/oj_l174_20010627_en.pdf).

If there are procedural advantages available in the coordination court that are not available elsewhere, the court could also make the dismissal in favor of another court conditional on an agreement by the parties to waive the right to object to the use of that procedural opportunity. An example is provided in Illustration 3. Finally, the court should determine whether the remedies being sought (or remedies similar to them) are available in the court being considered for consolidation.

**Illustration:**

6. X brings a patent-infringement action against Y in Switzerland, alleging that Y is infringing X's Swiss patents. X brings a similar action against Y in the United States, alleging infringement of X's U.S. patents.

Y counterclaims for a declaration of patent invalidity in the United States and moves in Switzerland for consolidation. Y's theory of invalidity is that X was not the first to have invented the invention. (This defense is not available in Switzerland because priority there depends on who filed first, not who invented first.)

If the Swiss court decides to consolidate the cases, it must consider the question whether the parties will have adequate discovery opportunities to prove dates of invention. The United States accords a large scope for discovery, but if other factors point to consolidation in Switzerland, then the court must determine whether assistance will be available from the U.S. court. Note that if the claim is resolved in Switzerland, the decision on the validity of the U.S. patent will be effective only among the parties (§§ 212(4) and 413(2)).

*f. Consistency with international norms, § 222(4)(f).* The inquiry whether the consolidation court meets international norms is intended to assure the litigants that their case will be determined with transparent and efficient judicial process. Such norms can be found in the TRIPS Agreement; see arts. 42-49. These provisions represent a broad consensus on the powers a court must possess to adjudicate intellectual property controversies adequately.

*g. Timing.* Because delay and confusion are core concerns, the Principles emphasize dispatch. Section 102(2) requires timely determination whether a dispute falls within the Principles, § 221(1) requires the parties to move for coordination in a timely manner, § 222(5) asks the court to decide the issue of coordination in a timely fashion, and § 222(6) requires parties who wish to appeal to do so at the first opportunity. Other elements designed to eliminate delay include § 221(5)(b), which disqualifies a tribunal in which a

declaratory-judgment action is pending, and § 221(6) and § 223(4), which permit courts where actions were originally filed to resume proceedings if the coordination court or consolidation court does not proceed in a reasonable time.

*h. Enforcement.* As with the allocation of coordination authority to the designated court, the coordination decision is enforced through § 403(2)(c) and (d). For example, if a dispute is consolidated in a particular court, then the judgment of any other court on that claim may be denied enforcement. The enforcement court is not free to reexamine consolidation decisions.

*i. Appeals.* The opportunity for judicial review gives litigants confidence in the fairness of the procedure and provides a vehicle for effective development of the law on cooperation and consolidation. However, the appellate process offers rich sources of delay and, when postponed until final judgment, risks wasting significant resources. The advantages of coordination, coupled with the opportunities §§ 221-223 provide for party participation and opportunities for settlement. Thus the number of appeals should diminish. A jurisdiction that adopts the Principles might permit interlocutory review of the coordination decision. If in practice appeals cause undue delay, it may be appropriate to consider eliminating judicial review of the coordination decisions.

## REPORTERS' NOTES

*1. Judicial cooperation.* An effective way to move toward global dispute resolution is to enlist the aid of the courts where litigation is pending. These courts have a strong interest in saving resources, avoiding inconsistent adjudication and judgments that will not, as a practical matter, be fully enforced. In fact, another place where international adjudication is being seriously considered is in bankruptcy, and, in that instance, the disputes that have proceeded on a global basis have all done so through the offices of the court. See Jay Lawrence Westbrook,

International Judicial Negotiation, 38 *Tex. Int'l L.J.* 567 (2003). Westbrook gives the examples of *In re Blackwell*, 267 B.R. 732 (Bankr. W.D. Tex. 2001) (involving insolvency cases in Texas, the Cayman Islands, and England, which were handled through a set of protocols accepted by the relevant courts); *In re Maxwell Communication Corp.*, 170 B.R. 800 (Bankr. S.D.N.Y. 1994), *aff'd*, 186 B.R. 807 (S.D.N.Y. 1995), *aff'd*, 93 F.3d 1036 (2d Cir. 1996) (involving U.S. and London reorganizations and an operating protocol approved by the courts). Westbrook, *supra*, at 571-73. See also American Law Institute, Transnational Insolvency Project (developing such a method for managing bankruptcy within NAFTA countries); UNCITRAL, Model Law on Cross-Border Insolvency, available at <http://www.uncitral.org/pdf/english/texts/insolven/insolvency-e.pdf>; Frederick Tung, *Is International Bankruptcy Possible?*, 23 *Mich. J. Int'l L.* 31 (2001). Pursuant to international agreements, court-mediated cooperation is also common in family-law matters, see, e.g., Hague Convention on Protection of Children and Cooperation in Respect of Intercountry Adoption, May 29, 1993, 32 *I.L.M.* 1134, available at [www.hcch.net/index\\_en.php?act=conventions.pdf&cid=69](http://www.hcch.net/index_en.php?act=conventions.pdf&cid=69); Hague Convention on the Civil Aspects of International Child Abduction, Oct. 25 1980, 1343 *U.N.T.S.* 89, available at [http://www.hcch.net/index\\_en.php?act=conventions.text&cid=24](http://www.hcch.net/index_en.php?act=conventions.text&cid=24); Hague Convention on Jurisdiction, Applicable Law, Recognition, Enforcement and Cooperation in Respect of Parental Responsibility and Measures for the Protection of Children, Oct. 19, 1996, 35 *I.L.M.* 1391, available at [http://www.hcch.net/index\\_en.php?act=conventions.text&cid=70](http://www.hcch.net/index_en.php?act=conventions.text&cid=70).

The litigants in intellectual property disputes also have substantial incentives to cooperate. For example, it is anticipated that cooperation will likely be most appropriate in registered-rights cases, particularly patent cases, where foreign (and in some cases, domestic) courts lack the capacity to enter a judgment that runs against the world. In such cases, litigation may best be situated in each State in which rights are registered. At the same time, however, substantial benefits could be achieved if, before any trial commences, the parties agree to take the inventor's testimony a single time, choose to focus their disputes on the same embodiments of the accused device, and stipulate to the documents and practices that constitute the prior art, or agree to be bound by a single

court's factual determinations. Patent judges are uniquely suited to this approach because they have a longstanding practice of meeting to share expertise in patent adjudication. And although courts could still arrive at different decisions on validity or infringement, there is no real inconsistency because the laws applied are different, and, in many cases, exploitation in one territory is (at least in theory) unaffected by exploitation elsewhere.

2. *Consolidation practice.* Both the United States and the European Union have ways to avoid a multiplicity of suits over the same issues, but in both places, current practice makes complete consolidation difficult. The Principles attempt to take advantage of pro-consolidation features in both U.S. and European systems. It is not likely, however, that they could be fully implemented in either (or any) judicial system without authoritative intervention. For example, multijurisdictional patent cases subject to the Brussels Regulation could not be consolidated without a change in the registered-rights limitation of art. 22(4); nor could a case in that system be consolidated in a court other than the one first seized without a change in the *lis pendens* doctrine of art. 27. Although U.S. law is more flexible, it too has limits. For example, it has been held that a declaratory-judgment action raising federal trademark issues cannot be stayed pending adjudication of a state claim arising from the same transaction, when the federal claim was filed first and there was no indication that it was filed for an illicit purpose; see *Verizon Commc'ns, Inc. v. Inter Verizon Int'l, Inc.*, 295 F.3d 870, 874 (8th Cir. 2002).

3. *Factors to consider in determining the court appropriate to hear the dispute.* Although the coordination authority provision could be expanded to centralize the dispute in the court first seized with the action, thereby limiting judicial discretion in accordance with (what can be perceived to be) the preferred approach outside the United States, the rigidity of that solution was rejected. It would give the first plaintiff too much control over the litigation. More important, it would sometimes situate litigation in a court ill-suited to the task of dealing with complex matters or in a court far removed from the dispute. It is also important for the court first seized to consider whether a potential consolidation court will apply fair, equitable, and transparent civil judicial procedure. At the same time, however, controversy over judicial discretion must be avoided. The Principles therefore give the court adminis-

trative authority to determine which court should ultimately entertain a consolidated dispute.

The AIPPI Resolution includes several considerations relevant to determining the appropriate court. The main factor is the “country where the infringements or the acts leading to infringement (‘infringing acts’) take place.” AIPPI, Q174 Resolution, Recital b. But the Resolution continues: “to avoid abuse of forum shopping, there should be some nexus (based on serious and objective criteria) between the forum chosen and the infringing acts.” *Id.* That approach is rejected here. Many of the cases where consolidation will be appropriate involve Internet distribution. If the place of the infringing acts is regarded as the place where the material is uploaded to the Internet or where the servers are located, it will be too easy for the defendant to situate itself in a place inhospitable to intellectual property protection. Requiring a nexus between the forum State and the acts does not solve the problem, because the focus remains on the acts. Furthermore, the nature of the nexus is not specified.

Instead, these provisions look to the capacity of the courts, their authority over the parties, and their relationship to the dispute and to the law that will be applied. In the spider-and-web scenario, these factors should point to the home of the spider. Indeed, in most cases, these factors, combined with the jurisdictional leeway provided by § 206, will point the case to the residence of the principal defendant.

The provision for novel and complex questions is taken from U.S. law on supplemental jurisdiction, 28 U.S.C. § 1367(c)(1).

(a) *Expertise in patent cases*, § 222(4)(c). The patent bar had been particularly concerned that the complexity and technical difficulties that patent cases present to lay judges make them unsuitable for foreign adjudication. The bar pointed out that national patent laws are more diverse from one another than are other intellectual property laws. As a result, judges are less likely to decide foreign patent cases accurately. Moreover, many jurisdictions channel patent cases to specialized tribunals. The benefits of channeling would be undermined if a foreign court were allowed to decide some of these cases. Many patent lawyers thus do not see a role for consolidation, even in infringement actions;

they would prefer to have every patent case decided by a court of the State whose law is in issue.

As more patent applicants apply for protection in Europe via the EPC or centrally through the PCT, these concerns, at least insofar as they apply to issues concerning registration, may abate. Nonetheless, the Principles endeavor to address these problems by offering the cooperation alternative. If the coordination court chooses consolidation, it should direct the litigation in multinational cases to systems with specialized fora. Since most multinational disputes are likely to include claims under the law of at least one State that has such a court, this choice will usually be available. Admittedly, the expertise of the judges on these courts is currently in their own State's patent law. However, their ability to handle technical materials and their intimate knowledge of core patent principles (such as those imposed on all member States by the TRIPS Agreement) would likely make them at least as good at handling foreign patent cases as generalist judges in the State whose law is in issue. This benign form of forum-shopping may institutionalize over time, so that a specific set of courts would handle most consolidated patent actions. Cf. Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. Rev. 889, 903 (2001) (showing that patent cases in the United States tend to channel to 10 judicial districts).

(b) *The availability of process*, § 222(4)(d). Examples of procedures that must be considered include, in U.S. law, the subpoena authority available under the Digital Millennium Copyright Act, 17 U.S.C. § 512(h), and discovery devices under Fed. R. Civ. P. 26-37, 45. Elsewhere, devices such as Anton Piller orders (renamed search orders since April 1999) and “saisie-contrefaçon” measures are relevant examples. “Anton Piller orders,” *Anton Piller KG v. Manufacturing Processes Ltd.*, [1976] Ch. 55 (C.A. 1975), were approved by the House of Lords in *Rank Film Distributors Ltd. v. Video Information Centre*, [1982] A.C. 380 (H.L. 1981). It is an ex parte order, used in cases where the court believes there is a danger that the defendant will remove or destroy evidence in the form of documents or moveable property, such as money, papers or illegal copies of films, see P. Todd and S. Wilson, *Textbook on Trusts*, Oxford UP 447 2003. The Code de la propriété intellectuelle [Intellectual Property Code], art. L615-5, available at

<http://www.legifrance.gouv.fr> (Fr.), provides for the similar measure of “saisie-contrefaçon.” See also *Pro Swing, Inc. v. Elta Golf, Inc.*, [2006] SCC 52, ¶ 45 (Can.) (suggesting the use of letters rogatory).

Assistance procedures include the Hague Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters, Nov. 15, 1965, 658 U.N.T.S. 163, available at [http://www.hcch.net/index\\_en.php?act=conventions.text&cid=17](http://www.hcch.net/index_en.php?act=conventions.text&cid=17), and the Hague Evidence Convention, or in U.S. federal law, 28 U.S.C. § 1782. See also *Intel Corp. v. Advanced Micro Devices, Inc.*, 542 U.S. 241 (2004) (reading 28 U.S.C. § 1782 to give courts broad discretion to offer assistance). Within the European Union, these matters are governed by Council Regulation 1348/2000 of 29 May 2000 on the Service in Member States of Judicial and Extrajudicial Documents in Civil or Commercial Matters, 2000 O.J. (L 160) 37, available at [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2000/l\\_160/l\\_16020000630en00370052.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2000/l_160/l_16020000630en00370052.pdf), and Council Regulation 1206/2001 of 28 May 2001 on Cooperation Between the Courts of the Member States on the Taking of Evidence in Civil or Commercial Matters, 2001 O.J. (L 174) 1, available at [http://eur-lex.europa.eu/LexUriServ/site/en/oj/2001/l\\_174/l\\_17420010627en00010024.pdf](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2001/l_174/l_17420010627en00010024.pdf) (hereinafter Council Regulation 1206/2001). See also ALI/UNIDROIT Principles of Transnational Civil Procedure, Principle 16.3 (contemplating voluntary procedures to gather evidence from nonparties).

For an example of a dismissal conditional on an agreement to waive objections to a procedural opportunity available in the court dismissing the action, but not in the court in which the case will be refiled, see *In re Union Carbide Corp. Gas Plant Disaster at Bhopal*, 809 F.2d 195, 205-06 (2d Cir.), cert. denied, 484 U.S. 871 (1987) (forum non conveniens dismissal conditional on an agreement to allow U.S.-style discovery in India permissible if reciprocal).

(c) *Remedies*, § 222(4)(e). Regarding retention of jurisdiction and entry of an injunction requiring enforcement abroad, cf. *Australian Competition and Consumer Commission v. Chen* (2003) 132 F.C.R. 309 (Austl.). In this case, the Australian court entered an injunction against a U.S. resident defendant whose “cyberscam” website, [www.sydney-opera.org](http://www.sydney-opera.org), purported to sell tickets to performances at the Sydney Opera House, but in fact was not affiliated with the Sydney Opera

House, and kept customers' money and made no bookings; the court observed that “[w]hile domestic courts can, to a limited extent, adapt their procedures and remedies to meet the challenges posed by cross-border transactions in the Internet age, an effective response requires international cooperation of a high order.” *Id.* ¶ 61. Catherine Lee, *Australian Competition and Consumer Commission v Chen* [2003] F.C.A. 897: *What Do You Do with Overseas Cyberscammers?*, 15 *Ent. L. Rev.* 30 (2004).

4. *Appeals.* It would be possible to deem orders on coordination to be nonappealable. However, there are advantages to giving the parties their day in an appellate court, cf. 28 U.S.C. § 1292(b) (permitting interlocutory appeals when an immediate decision “may materially advance the ultimate termination of the litigation”); § 1651 (permitting review by writ of mandamus when necessary “in aid of [the appellate court’s] jurisdiction[ ]”).

### **§ 223. Disposition of the Dispute by Other Court or Courts Seized with the Action**

**(1) When the court designated by § 221 asserts coordination authority, courts in which related actions are pending should suspend proceedings awaiting:**

**(a) a determination by the designated court that the suit falls within the Principles; and**

**(b) that court’s decision, in accord with § 222, whether there should be coordination, and, if so, whether the method of adjudication should be by cooperation among the courts seized, or by consolidation of the entire dispute before one court.**

**(2) If the designated court determines that the dispute should be adjudicated cooperatively, courts in which related actions are pending should**

**consult with the parties, the court first seized, and other courts in which related actions are pending, to determine the scope of each court's authority and the timing of each court's proceedings.**

**(3) If the designated court consolidates the dispute and chooses the court in which the consolidated action will be adjudicated, courts other than the consolidation court should suspend proceedings in any action within the consolidation. If any court suspends its proceedings under this subsection, it may order the litigants to provide security sufficient to satisfy any final decision on the merits.**

**(4) When a court has suspended its proceedings under subsection (3), it may resume proceedings if:**

**(a) the consolidation court declines to exercise jurisdiction or determines that the actions are not subject to coordination;**

**(b) the plaintiff in the suspended action fails to proceed in the consolidation court within a reasonable time; or**

**(c) the consolidation court fails to proceed within a reasonable time.**

**(5) Another court seized with the action should dismiss the suspended case when presented with a final judgment rendered by the consolidation court that decides the claims on the merits in compliance with the requirements for recognition or enforcement under Part IV of these Principles.**

**(6) The judgment rendered through coordinated adjudication does not foreclose proceeding with claims that were not made subject to coordination.**

**Comment:**

*a. The duty of other courts.* Once a court takes coordination authority over a dispute and designates the related actions that will be coordinated, the courts where these actions are pending should suspend proceedings to await that court's determinations. If the dispute is coordinated through cooperation, § 223(2) instructs the courts to facilitate that approach. If the dispute is consolidated, other courts should suspend proceedings. Once an enforceable judgment is rendered, these courts should dismiss the suspended cases. However, if there is no activity within a reasonable time period, the related actions can be revived. Because this approach to multinational adjudication is new and creates novel opportunities for delay, the Principles also give the other courts authority to assure the litigants that they will eventually be able to collect on the judgment. Thus, these courts may require the parties to post security (§ 223(3), see Comment *b*), and can order provisional and protective measures within their territories (§ 214(2)).

*b. The duties of the parties.* Although many of these actions can be taken by the relevant court on its own motion, in most cases the parties will play an active role. Thus, the parties will have the burden of going forward to refile their actions in the consolidation court. They will usually be obliged to notify and to move to suspend proceedings in other courts where related actions are pending and to have related proceedings dismissed. In addition, the parties may request the posting of a bond to secure the satisfaction of the judgment. This decision, which usually en-

tails considerations concerning the potential insolvency of the defendant, and other risks of harm, depends (as with other procedural matters) on the law of the forum State. Similarly, if the consolidation court does not proceed in a timely manner, the parties will be responsible for reviving the suspended actions.

*c. Compliance with coordination.* The Principles use enforcement as a compliance mechanism. Once a decision on coordination is made, judgments rendered by courts that are not chosen to participate in the adjudication may not be enforced in other States (§ 403(2)(c) and (d)). However, if the dispute is not coordinated or the coordinated case does not proceed in a reasonable time, then § 223 allows the initial courts to proceed to adjudicate. In that situation, there is no obstacle under the Principles to enforcement.

*d. Delay.* A key concern with a procedure such as the one contemplated by these Principles is that the parties will use the potential for consolidation as an opportunity for delay. It is hoped that as courts become familiar with these procedures, they will begin to consult with one another to reach the decision on how to best adjudicate a complex dispute. In the absence of an informal mechanism, the courts will work through the parties. In addition to the provision on security (§ 223(3)), the Principles give the other courts residual authority to decide the case if it is not heard in a reasonable time (§ 223(4)) (implicit).

### **REPORTERS' NOTE**

*Duties in cooperative proceedings.* The ALI Transnational Insolvency Project provides detailed principles on how courts entertaining parallel bankruptcy proceedings should cooperate and coordinate. These include creating a protocol providing for approvals by the participating courts in decisionmaking, communication among creditors, as well as time- and cost-saving procedures, Procedural Principle

14. In addition, there are provisions regarding actions affecting assets, notice to interested parties, information exchanges, as well as other facets of insolvency proceedings. This level of specificity is not possible for intellectual property because the cases covered by these Principles are too varied to be treated uniformly. Furthermore, there is insufficient experience with coordination to build upon. In fashioning new procedures, the ALI/UNIDROIT Principles of Transnational Civil Procedure should prove invaluable as they provide guidance on the issues the court is likely to confront, such as dealing with foreign languages (Principle 6); delay (Principle 7); structuring proceedings (Principle 9); the respective duties of the parties and the court (Principles 10, 11, 14); and judicial cooperation (Principle 31). See also Rules 8, 17, 18.

## **Part III**

### **APPLICABLE LAW**

#### **Introductory Note**

These Principles are the first institutional endeavor to build a consensus for rules on conflict of laws in intellectual property matters. Choice-of-law rules have traditionally commanded little attention in intellectual property circles, principally because many specialists thought them irrelevant. Multilateral agreements such as the TRIPS Agreement set out uniform (or uniformizing) substantive rules; outside these bounds, each State legislates for itself. It has simply been assumed that each State's rules applied to anything transpiring within its borders, and no further. But technological developments have increasingly called those assumptions into question. With the advent, first of satellite and later of digital communications, commentators began to question whether it remained desirable or workable to apply a plethora of national laws to an infringement occurring simultaneously across the globe. National legislatures have begun to respond with choice-of-law provisions designed to accommodate conflict of laws in transborder intellectual property controversies. The time is ripe, therefore, to essay a comprehensive treatment of choice-of-law problems that arise in the international dissemination of intellectual property. In the future, substantive law may be more thoroughly harmonized, or an international approach to choice of law may be forged; these Principles are intended to fill the gap and stimulate longer-term efforts in this vein.

Although some solutions within the European Union or proposed by commentators depart in significant ways

from the dominant territorial approach, the Principles do not go so far as to substitute a different general point of attachment, such as the right holder's residence, to resolve all multinational infringement claims. They seek to respect the principle of territoriality and the consequent domestic cultural and industrial policies (including exceptions and limitations on protection) that underlie that principle, and also to facilitate international commerce in, and therefore redress for the infringement of, works of authorship. These same policies pertain to other intellectual property rights as well, as these rights are often even more territorially determined than are copyright and neighboring rights. Territoriality thus remains the rule for most issues posed in most actions: existence, infringement, validity, duration, attributes, and remedies. It is important to observe that, as laws become better harmonized, for example by virtue of TRIPS compliance and adherence to new multilateral intellectual property agreements, courts will have less difficulty identifying and applying foreign laws because they will more closely resemble their own.

The Principles nonetheless propose several departures from strict territoriality. All of these have some foundation in the case law of national courts. First, the Principles allow the parties to choose the law that will apply to certain aspects of their relationship (§ 302). Second, the Principles designate a single law to determine initial ownership of certain rights, such as copyright, which do not arise out of registration (§ 313). Third, the Principles envision the possibility that in cases where infringement is ubiquitous, circumstances may most closely connect a case to a particular State, or to a small set of specific States, despite its apparently multinational character (§ 321). In addition, in the

interest of achieving efficient adjudication, the parties may choose to forego some claims within the scope of the alleged harm. Finally, the Principles incorporate the universally recognized public-policy (or “ordre public”) exception permitting courts to refuse to apply foreign laws that conflict with fundamental norms (§ 322). See also § 323 (mandatory rules).

These departures remain limited in scope. It is possible, with the development of transnational intellectual property litigation, that it will become appropriate to articulate additional choice-of-law rules less tethered to territoriality. But at this initial stage, the Principles endeavor to set a broad and open-ended framework, rather than, perhaps prematurely, devising a full repertory of specific rules. In addition, because the Principles address an international audience, they strive to avoid terminology familiar in particular States but not adopted in others.

Any set of conflicts rules should be (and should be perceived to be) fair and neutral. The rules should neither favor an intellectual property owner over an alleged infringer, nor should they privilege users over owners. Moreover, the rules should put domestic and foreign law on an equal footing; they should not systematically designate the application to local litigants of domestic legislation in lieu of foreign law, nor should they otherwise discriminate between local and foreign claimants. When the interests at stake implicate the forum’s basic public policies, the court may have recourse to the public policy exception (§ 322), or, where appropriate, may apply local mandatory rules (§ 323). But the *initial* inquiry into the law otherwise applicable should not give pride of place to local legislative objectives.

The Principles on choice of law are addressed to the courts whose jurisdiction is invoked to resolve the merits of a transnational intellectual property dispute within the meaning of § 102. The court where enforcement is sought should, however, verify that the law chosen was not inconsistent with these rules (§ 403(2)(b)). The reference to a foreign law in Part III includes only substantive law and not the designated State's administrative or procedural law or its choice-of-law rules.

**Illustrative Overview:**

Assume the same facts as in the Illustrative Overview of Part II, adjudication of a worldwide dispute involving the U.S. company MajorMovieCo and several file-sharing enterprises, JCo (in Japan), USCo (in the United States), ICo (in India), and GCo (a German company exploiting the European market), in a Japanese court. Assume also that JCo's software is regularly downloaded in Korea and other Asian countries and MajorMovieCo asserts infringement claims regarding uses in these countries. The issue is what law applies to MajorMovieCo's claims. Assume that all of MajorMovieCo's territorial claims against JCo and its Asian licensees can be consolidated in Japan.

Under § 301, the court is instructed to apply the laws of each jurisdiction in which infringements are alleged. It should be noted that in some jurisdictions, the defendants' activities will be considered direct infringements, in others, contributory infringement.

If MajorMovieCo asserts claims concerning many territories, the concern may arise that so many laws will apply as to make the litigation unmanageable. But the concern may not always be justified. For example, the parties may choose to ignore territories in which the economic impact of infringement is insignificant. For example, downloads in Myanmar may be too few to warrant plaintiff's pleading them, because they do not significantly impact MajorMovieCo's markets, and MajorMovieCo may therefore choose to disregard them. Indeed, MajorMovieCo may be willing to relinquish claims on downloads of Japanese films outside Asia on the ground that compensation on these downloads is not significant. Furthermore, injunctive relief within Asia may bring an end to infringement of these films globally.

The court should apply its own jurisdiction's approach to assigning the burden of proving foreign law. For example, under Japanese practice, the court may undertake the inquiry on its own motion, or the parties may make the showing.

The Principles do not, however, endeavor to propose an all-purpose set of rules for conflict of laws. The forum should apply its own rules with respect to issues that are not related to intellectual property or implicated by the application of the Principles. Examples include general rules of procedure, such as raising and proving of foreign law, characterizing claims, and determining when parties are in privity.

## REPORTERS' NOTE

*Choice-of-law rules for intellectual property litigation.* Because the ALI project is the first institutional endeavor to build an international consensus for rules on conflict of laws in intellectual property matters, the ALI cannot restate existing law; until recently, there has been none. For an example of a recent national law initiative, see Belgian Code of Private International Law, 16 July 2004, art. 93 (“Droit applicable à la propriété intellectuelle” [law applicable to intellectual property]). See also Munich Convention on the Grant of European Patents art. 60(1), Oct. 5, 1973, 1065 U.N.T.S. 199, available at <http://www.european-patent-office.org/legal/epc/e/ma1.html> (EPC, providing for a choice of law rule regarding initial title to a European Patent).

The main thrust for the formation of a body of choice-of-law rules comes from scholars, in particular, Alois Troller, *Das internationale Privat- und Zivilprozeßrecht im gewerblichen Rechtsschutz und Urheberrecht* (1952); Eugen Ulmer, *Die Immaterialgüterrechte im internationalen Privatrecht* (1975); Eugen Ulmer, *Intellectual Property Rights and the Conflict of Laws* (1978); 3 Max Keller et al., *Die Rechtsprechung des Bundesgerichts im internationalen Privatrecht und in verwandten Rechtsgebieten: Eine systematische Auswertung* (1982); François Dessemontet, *Transfer of Technology Under UNCTAD and EEC Draft Codifications: A European View on Choice of Law in Licensing*, 12 *J. Int'l L. & Econ.* 1 (1977); Georges Koumantos, *Sur le droit international privé du droit d'auteur*, in: *Il diritto di autore*, 616 (1979); Arpad Bogsch, *The Law of Copyright Under the Universal Convention* (3d ed. 1968); *Design Laws and Treaties of the World* (Arpad Bogsch ed., 1960); André Françon, *Le droit d'auteur: aspects internationaux et comparatifs*, (Cowansville Q.: Y. Blais, 1992); Adolf F. Schnitzer, *Handbuch des internationalen Privatrechts: einschließlich Prozeßrecht, unter besonderer Berücksichtigung der Schweizerischen Gesetzgebung und Rechtsprechung* (1957-1958); Jane C. Ginsburg, *The Private International Law of Copyright in an Era of Technological Change*, 273 *Recueil des cours* 239 (1998); André Lucas & Henri-Jacques Lucas, *Traité de la propriété littéraire et artistique* 813-93 (3d ed. 2006).

As applied to copyright disputes, these Principles endeavor to refine the connecting factors derived from the Berne Convention and its art. 5(2), as interpreted by most scholars, see, e.g., André Lucas & Henri-Jacques Lucas, *Traité de la propriété littéraire et artistique* ¶ 1314 (3d ed. 2006), that the law applicable to the existence and scope (infringement) of the rights is the law of the State for which the protection is sought, that is, the State in which the unauthorized use has occurred. See, e.g., Mireille van Eechoud, *Choice of Law in Copyright and Related Rights: Alternatives to the Lex Protectionis* 178 (2003) (“law of the place where the intellectual creation is used”). Art. 5(2) of the Berne Convention in fact provides that the law of the State “where” protection is sought will govern matters of existence of protection, as well as of infringement and remedies, but most scholars agree that “where” should be understood as “for which.” See, e.g., André Lucas, *Private International Law Aspects of the Protection of Works and of the Subject Matter of Related Rights Transmitted Over the Digital Networks* 4 (WIPO/PIL/01/1 Prov., 2001), available at [http://www.wipo.int/edocs/mdocs/mdocs/en/wipo\\_pil\\_01/wipo\\_pil\\_01\\_1\\_prov.pdf](http://www.wipo.int/edocs/mdocs/mdocs/en/wipo_pil_01/wipo_pil_01_1_prov.pdf).

Earlier drafts of the Principles proposed more aggressive departures from territoriality. They envisioned a commercial environment in which the importance of national borders would progressively wane. Given that impending future, the Principles offered an opportunity to devise forward-looking rules of legislative competence. Earlier drafts emphasized simplification of actions, not only with respect to judicial competence (still a hallmark of the Principles), but also regarding the number of applicable laws in multinational cases. Today, the subject matter of intellectual property is increasingly produced for worldwide markets, and in many cases, users’ tastes are equally global. Moreover, far more than in the past, dissemination can easily be realized on a global scale. While multinational distribution of course implicates many countries, to view the dispute as a collection of local litigation sticks in a worldwide bundle is to overlook the real scale of the enterprise.

Nonetheless, territoriality remains a powerful intuition. It is difficult to accept the proposition that an act unlawful in one territory should give rise to liability in another, where that same act is permissible, even where that territory is part of a global market. Furthermore, territoriality is a safeguard for local cultural values and social policies.

For example, intellectual property rights control medicines, including medicines that cure contagious diseases that could otherwise spread around the world. Informational use of trademarks furnishes another example. These Principles thus retain the basic rule of territoriality, but allow the parties to simplify the choice of applicable laws by agreement (§ 302), and when an infringement is instantaneous and worldwide (§ 321). In the latter case, however, the parties may also demonstrate that particular States' laws depart from the chosen norm.

## Chapter One In General

### § 301. Territoriality

**(1) Except as provided in §§ 302 and 321-323, the law applicable to determine the existence, validity, duration, attributes, and infringement of intellectual property rights and the remedies for their infringement is:**

**(a) for registered rights, the law of each State of registration.**

**(b) for other intellectual property rights, the law of each State for which protection is sought.**

**(2) The law applicable to a noncontractual obligation arising out of an act of unfair competition is the law of each State in which direct and substantial damage results or is likely to result, irrespective of the State or States in which the act giving rise to the damage occurred.**

#### **Comment:**

*a. Definitions.* Rights “exist” in a particular territory if that State recognizes the right at all, for example, whether it accords an exclusive right to display copyrighted works. The “attributes” of the right concern its content, for example, whether the display right extends to private as well as public displays, or whether it is limited to certain kinds of displays, such as via transmissions.

*b. State of registration.* The State of registration is the State of the registration of the right at issue in the litigation,

such as the patent, design or model right, trademark right, plant variety, semiconductor topographies rights, or geographical indications. The law of this State also governs any formalities of recordation and maintenance.

*c. Other rights.* Other intellectual property rights, whether or not registered, do not *arise* out of registration. These include copyright and neighboring rights, which arise out of the act of creation or performance; common-law trademarks and commercial-name rights, which in some States may arise out of adoption and use; and right of publicity (or right to one's image). As to these rights, registration is not a relevant point of attachment, either because there has been no registration, or because registration neither creates nor determines the rights at issue. The usual point of attachment for determining infringement of these rights therefore will be the countries where the right owner's market for the work has been affected. Finally, this formulation covers artists' resale rights (*droit de suite*), where the availability of relief depends on the territory in which a work of art (or, in some places, a manuscript) is sold.

*d. Point of attachment for law applicable to infringement of other rights.* The Principles follow a territorial approach in instructing courts to apply the laws of each State for which the moving party seeks protection. By eschewing the formulation "country *where* protection is sought," the Principles endeavor to distinguish and disqualify application of the forum's law when the sole basis for applying forum law is the bringing of the lawsuit there; see § 103(1). Moreover, the formulation "law of the country *where* protection is sought" is unclear: it might mean that the *lex fori* applies or that the *lex loci delicti* applies. The formulation "each country for which protection is sought" is compatible with a market-oriented approach; it corresponds to the markets that plaintiff seeks to protect from

infringements that are occurring (or threatened to occur) there. In the case of an unauthorized transmission by satellite or Internet, for example, the infringement may occur in each of the States of receipt, but the right holder may confine its claims to those locations that constitute the significant markets for the work. Finally, the formulation covers declaratory-judgment actions, in which a party seeks a declaration that its activities do not infringe intellectual property rights in that State.

*e. Rights of publicity.* Section 301(2) includes rights of publicity (or rights to one's image). This provision departs from a choice-of-law rule that treats rights of publicity like rights of privacy and looks to the law of the residence at the time of creation or at the place of residence at the time of death. The better view is to consider the right of publicity as an economic rather than a personal right, because its essence is to control exploitation. By contrast, privacy rights seek to prevent intrusion.

**Illustration:**

1. An advertisement is broadcast in the United States and Canada using a picture of the United Kingdom's Prince William without his permission. Prince William sues for violation of his right of publicity.

Although the United Kingdom does not recognize rights of publicity, the claim will be governed by U.S. and Canadian laws.

*f. Moral rights.* The Principles do not propose a special point of attachment for disputes involving moral rights. Thus, the general approach applies.

**Illustration:**

2. A is the ghostwriter for a book published under B's name. A signed a contract relinquishing attribution rights. The contract does not specify applicable law. The book is distributed in Xandia and in Patria. In Xandia, contracts waiving authorship attribution are permissible; in Patria, they are not. A subsequently brings an action against the publisher demanding that her name appear on the books.

Applying the general rule designating the laws of the States for which protection is sought, A will have a claim in Patria, but not in Xandia.

*g. Unfair Competition.* Many States entertain these claims together with claims of violations of intellectual property rights such as trademarks, tradenames, or neighboring rights. Thus, it makes sense for the same or similar choice-of-law rules to apply to the entire dispute. The characterization of an act as violating an intellectual property right, or as giving rise to an unfair-competition claim, may vary from State to State. The protection of trade secrets and of certain databases (not covered by copyright) furnishes examples of such subject matter. The Principles recognize that acts in one State may affect competition in another location. In such cases, the law of the place where competition is taking place should accordingly apply.

**Illustration:**

3. A develops a customer list in Patria, keeps it secret, and agrees to license it to B in Xandia. On the way to delivering it to B, A stops in Tertia, where C acquires and uses (but does not publish) the customer list without A's consent. Tertia does not recognize this material as a protectable trade secret.

If harm occurred to A's or B's commercial interests only in Tertia, Tertia's law will apply, and no protection is available. If, however, C also exploits the list in other jurisdictions (for example, where the listed customers are located) and A or B suffers direct and substantial damage there, then the laws of those jurisdictions will also apply, and damages may be awarded for those jurisdictions whose laws recognize the trade-secret status of customer lists.

*h. Facilitation of infringement.* An increasing number of transnational intellectual property controversies concern the acts of persons or enterprises that facilitate infringement, rather than (or in addition to) the acts of the end user/direct infringers. In some States, facilitation (or "authorization") of infringement may itself be an infringing act, distinct from the infringements committed by those benefiting from the facilitator's assistance. In such cases, the law that governs the determination of primary infringement applies.

**Illustration:**

4. Grumpster.com distributes from the State of Chaos peer-to-peer file-sharing software to users around the world. Grumpster.com helps users locate files on other users' computers; Grumpster.com does not carry any music or motion-picture content on its own website. Users seeking to copy music or movie files contact the Grumpster.com site to acquire the software and to initiate their searches for other file-sharers. The offering or copying of files from one user's computer to another's infringes the rights of the copied works' copyright holders.

The copyright holders may have two claims. One is for facilitating infringing downloads in Chaos. This is

determined by the law of Chaos, which may characterize the facilitation as a direct infringement, or as a basis for secondary liability. The other claim is for facilitating downloads outside of Chaos, which is determined by the laws of the States in which the unauthorized end uses occur. Whether the basis of liability in those States is direct or indirect will depend on those States' characterizations.

*i. Remedies.* The Principles require courts to apply the remedies available under the applicable law, even if that remedy would be unavailable under forum law. This situation is to be distinguished from the case in which a court cannot order a remedy because the mechanism for implementing it is not available under forum law. It should also be distinguished from cases involving acts occurring in multiple jurisdictions in which a remedy cannot be awarded for a given jurisdiction because the intellectual property right at issue has not been violated (or does not exist) in that jurisdiction. Finally, when devising means of redress, the court should have particular regard to the ability to secure enforcement of those remedies in the other jurisdictions concerned.

**Illustrations:**

5. A, a resident of Patria, and B, a resident of Xandia, enter into a licensing agreement governed by the law of Patria requiring B to make milestone payments for use of A's patented research tool. B does not make the payments required and A sues B in Xandia. The remedy law of Patria allows for periodic payments.

Even if the only form of relief in Xandia is a lump-sum payment, a Xandian court should grant the relief requested by A under Patrian law, which governs the

agreement. However, if Xandia lacks a mechanism to supervise periodic payments, Xandia can refuse to grant that relief.

6. Database producer A sues B, a competitor that has systematically copied information out of A's database. B distributes its database in Patria, Xandia, and Tertia. The latter two countries provide for *sui generis* protection of databases against the systematic extraction of substantial portions of their contents. Patria does not. B's copying does not amount to copyright infringement under any of these countries' laws. Thus, B has not violated any intellectual property rights in Patria.

No accounting for profits should be ordered with respect to B's sales in Patria. But because B's sales in Xandia and Tertia violate those countries' *sui generis* protections, A should be able to obtain relief against B under the laws of Xandia and Tertia.

In some cases, the lack of remedial procedure may present challenges when another State's court is asked to enforce the judgment. See §§ 411-413.

### REPORTERS' NOTES

*1. Territoriality.* Recent scholarship exemplifies the debate prompted by the pressure that the pervasiveness of digital communications puts on traditional choice-of-law rules. Compare Andreas P. Reindl, *Choosing Law in Cyberspace: Copyright Conflicts on Global Networks*, 19 Mich. J. Int'l. L. 799 (1998) (favoring application of a single law to certain worldwide disseminations) with Graeme W. Austin, *Domestic Laws and Foreign Rights: Choice of Law in Transnational Copyright Infringement Litigation*, 23 Colum.-VLA J.L. & Arts 1 (1999) (advocating the application of a multitude of laws to worldwide infringement actions); Graeme W. Austin, *Social Policy Choices and Choice of Law for Copyright Infringement in Cyberspace*, 79 Or. L. Rev. 575 (2000) (addressing the

social policy issues involved in the debate surrounding “single governing law” approaches to transnational infringement cases); Graeme W. Austin, Valuing “Domestic Self-Determination” in International Intellectual Property Jurisprudence, 77 Chi.-Kent L. Rev. 1155 (2002) (addressing related sovereignty issues).

2. *Characterization of connecting factors.* The international conventions on intellectual property, when applicable, do not characterize with certainty the connecting factor or factors, nor do they, as a general matter, clearly set forth a choice-of-law approach. For example, although art. 5(2) of the Berne Convention states that “the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed,” many scholars contend that art. 5(2) of the Berne Convention should not be construed as a rule on conflicts of law. See, e.g., Roberto Mastroianni, *Diritto Internazionale e Diritto d’Autore* 390-97 (1997); François Dessemontet, Conflict of Laws for Intellectual Property in Cyberspace, 18 J. Int’l Arb. 487, 489 (2001) (“Article 5(2) of the Berne Convention is a rule on the treatment of foreigners, rather than a rule on conflicts of law.”) and Maria Martin-Prat, Jane Ginsburg, Shira Perlmutter, & Graeme Dinwoodie, Commentary and Panel Discussion on Choice of Law, in 7 *International Intellectual Property Law and Policy* 99-1 (Hugh C. Hansen ed., 2002). For an extensive rebuttal of the characterization of art. 5(2) of the Berne Convention as a choice of law rule, see Mireille van Echoud, Choice of Law in Copyright and Related Rights: Alternatives to the Lex Protectionis, 106-10 (2003).

Article 5(2), moreover, is unclear as to the precise characterization of the connecting factor, i.e., “*where* protection is claimed,” especially when the infringement is committed on the Internet, and also as to the exact scope of the applicable law. For example, the reference to the country “where” protection is claimed could mean the substantive or the conflicts law of the forum State, or it could mean the substantive law of the country (or countries) “for which” protection is claimed. As an example, suppose a copyright-infringement suit brought in the United States regarding an unauthorized transmission from Canada of a U.S. work, received in France. “[T]he country where protection is claimed” in this instance might mean the *lex loci delicti*, which, in turn, might mean the place(s) of commission/initiation of the infringement (Canada), or the place(s) of its impact (France). Alternatively, “where protection is claimed” might mean the *lex fori*, the law of the forum

State where the action is brought (the United States). In other words, even if the Berne Convention purported to announce choice-of-law rules, the disagreement as to what those rules are counsels clear enunciation of choice-of-law rules in these Principles.

Art. 9 of the European Commission's Amended Rome II Proposal designates that for intellectual property rights other than a "unitary Community industrial property right," "the law of the country *for which* protection is sought" controls infringement (emphasis added). The same approach is taken here.

3. *Moral rights.* A principle designating the author's residence as the point of attachment for moral rights was considered, on the ground that a personal point of attachment was consistent with the personal nature of moral rights. Nonetheless, it was rejected as impractical. First, countries that enforce foreign authors' moral rights are likely to continue to do so under their public policies or mandatory rules; see Court de cassation, première chambre civile [Cass. 1e civ.], May 28, 1991, Bull. civ. I, No. 172 (Huston v. La Cinq) (Fr.). Thus, the law of the country for which protection is sought is likely to apply, one way or another. Second, having the law follow the residence of the author can create problems for exploiters whose conduct with respect to the work may be permissible at one point in time, but impermissible later, when the author changes residence.

4. *Unfair Competition.* The text of the provision applies the substance of the solution found in art. 99 § 2(2) of the Belgian Code of Private International Law ("l'État sur le territoire duquel le dommage est survenu ou menace de survenir" [territory where damage occurred or threatens to occur]).

On divergent protection of databases (not covered by copyright), compare Council Directive 96/9/EC of 11 March 1996 on the Legal Protection of Databases, arts. 7-11, 1996 O.J. (L 77) 20, available at <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:31996L0009:EN:HTML> with Bundesgesetz gegen den unlauteren Wettbewerb [UWG], Loi fédérale contre la concurrence déloyale [LCD] [Federal Law on Unfair Competition] Dec. 19, 1986, SR 241, RS 241, art. 5(c) (Switz.), available at <http://www.admin.ch/ch/d/sr/c241.html> (in German); <http://www.admin.ch/ch/f/rs/c241.html> (in French); [http://www.wipo.int/clea/docs\\_new/pdf/en/ch/ch016en.pdf](http://www.wipo.int/clea/docs_new/pdf/en/ch/ch016en.pdf) (English translation). Regarding phonograms, see Geneva Convention for the Protection of Producers of Phonograms Against Unauthorized Dupli-

cation of Their Phonograms art. 3, Oct. 29, 1971, 866 U.N.T.S. 67, available at [http://www.wipo.int/treaties/en/ip/phonograms/trtdocs\\_wo023.html](http://www.wipo.int/treaties/en/ip/phonograms/trtdocs_wo023.html) (allowing member States to protect against unauthorized reproduction of phonograms by means of copyright or neighboring rights, or through an unfair-competition claim).

5. *Rights of publicity.* The Principles' choice of law for rights of publicity is inconsistent with the choice of law applied in U.S. cases; see, e.g., *Cairns v. Franklin Mint Co.*, 292 F.3d 1139, 1149 (9th Cir. 2002) (applying the law of the plaintiff's domicile); *Rogers v. Grimaldi*, 875 F.2d 994, 1002 (2d Cir. 1989) (same); *Bi-Rite Enterprises, Inc. v. Button Master*, 555 F. Supp. 1188, 1197 (S.D.N.Y. 1983) same; *Southeast Bank, N.A. v. Lawrence*, 489 N.E.2d 744, 745 (N.Y. 1985) (same). The genesis of this rule, which mirrors the choice-of-law approach to privacy claims, probably lies in the U.S. right of publicity's initial conception as a facet of the right of privacy, William Prosser's formulation, *W. Page Keeton et al.*, *Prosser and Keeton on the Law of Torts* § 117 (5th ed. 1984). Although plaintiff's reputation may be harmed where the plaintiff lives, the right of publicity protects an economic interest. Thus, the rule expressed here follows the general rule for other intellectual property rights. For example, in Illustration 1, following the U.S. rule would deny Prince William the ability to control the economic exploitation of his name and image, even in countries where those rights are recognized.

6. *Facilitation of infringement.* Different jurisdictions may consider acts of facilitation of infringement as giving rise to derivative liability; others may deem those acts torts in their own right, see, e.g., *Moorhouse v. University of New South Wales* (1976) R.P.C. 151 (H.C. Austl. 1975); *Universal Music Australia Pty Ltd v Sharman License Holdings Ltd.* (2005) F.C.A. 1242 (Austl.); and still other jurisdictions may rule some kinds of facilitation independently tortious, but subject others to a secondary liability analysis. Compare 17 U.S.C. § 1201(b) (direct liability for trafficking in devices primarily designed to circumvent technological protection measures) with *Sony Corp. of Am. v. Universal City Studios Inc.*, 464 U.S. 417, 456 (1984) (no secondary liability for sale of devices that facilitate infringement if devices are capable of substantial noninfringing uses). Moreover, among (or within) jurisdictions that characterize facilitation as a form of secondary liability, the standard for establishing a violation may vary. Compare the analysis of *Sony* in *Metro-Goldwyn-Mayer Studios Inc. v. Gorkster, Ltd.*, 125 S.Ct. 2764, 2787 (2005) (Breyer, J., concurring) (capacity for substantial noninfringing use met even if substantial majority of uses are infringing) with *id.*

at 2783 (Ginsburg, J., concurring) (defendant must show there are in fact substantial noninfringing uses). For a decision applying the law of the end-user's State to acts occurring elsewhere, see *MEMC Electronic Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369 (Fed. Cir. 2005) (manufacture and sale in Japan of patented silicon technology may be considered "inducement" under U.S. law when ultimate customers were located in the United States).

### **§ 302. Agreements Pertaining to Choice of Law**

**(1) Subject to the other provisions of this Section, the parties may agree at any time, including after a dispute arises, to designate a law that will govern all or part of their dispute.**

**(2) The parties may not choose the law that will govern the following issues:**

**(a) the validity and maintenance of registered rights;**

**(b) the existence, attributes, transferability, and duration of rights, whether or not registered; and**

**(c) formal requirements for recordation of assignments and licenses.**

**(3) Any choice-of-law agreement under subsection (1) may not adversely affect the rights of third parties.**

**(4) (a) Except as provided in subsection (5), a choice-of-law agreement is valid as to form and substance if it is valid under the law of the designated forum State.**

**(b) Capacity of the defendant to enter into the agreement is determined by the law of the State in which the defendant was resident at the time the agreement was concluded.**

**ed; if the defendant has more than one residence, capacity will be recognized if it exists under the law of any one of its residences.**

**(5) (a) In addition, choice-of-law clauses in mass-market agreements are valid only if the choice-of-law clause was reasonable and readily accessible to the nondrafting party at the time the agreement was concluded, and is available for subsequent reference by the court and the parties.**

**(b) Reasonableness under subsection (a) is determined in light of:**

**(i) the closeness of the connection between the parties, the substance of the agreement, the State whose law is chosen, and the forum, and**

**(ii) the parties' locations, interests, and resources, taking particular account of the resources and sophistication of the nondrafting party.**

**(6) If the choice-of-law clause is not valid under this Section, then it should be disregarded and the applicable law should be determined according to the other provisions of Part III.**

**Comment:**

*a. Scope of the rule.* The Principles are premised on party autonomy with respect to choice of court (§ 202), and with respect to contractual allocation of ownership rights (§§ 311-313), but not all questions can be determined by a law chosen by the parties. In general, the public-law aspects of intellectual property must be adjudicated under the laws that give rise to the rights in each jurisdiction concerned. These include the mandatory nature of administrative pro-

cedures and fees to obtain or maintain registered rights, the validity of registered rights, and the formal requirements for recordation of assignments and licenses. These also encompass the existence, attributes (specific content), transferability, and duration of rights (whether or not registered). Further, the law applicable to the effect on persons not parties to assignments or licensing agreements cannot be elected by the parties to those agreements. The forum's law determines whether the dispute is of a nature to be submitted to a law chosen by the parties. If the forum determines that portions of the dispute are not appropriate for resolution under the law chosen by the parties, it should nonetheless give effect to that choice for those issues that are amenable to such resolution.

**Illustration:**

1. A and B enter into an agreement to distribute photographs produced by A through a purely mechanical process without human intervention. The threshold for copyrightability in Patria is extremely low; A's photographs would therefore be protectable in Patria. Xandia and Tertia, however, require a level of originality that A's photographs do not meet. A and B agree that Patrian law will apply to the photographs in all countries of distribution, including Xandia and Tertia.

If C, who is not a party to the contract, reproduces and distributes the photographs in Xandia, Xandia's law will apply (and no infringement will be found) because A's and B's agreement does not affect third parties. If B stops paying royalties to A for B's exploitation of the photographs in Xandia and Tertia, A's copyright-infringement claim will fail because the A-B agreement cannot create intellectual property protec-

tion in jurisdictions where none exists. But A may claim remedies for breach of contract.

The parties may validly choose a single law to adjudicate claims deriving from alleged infringements. For example, if several States are impacted by an alleged infringement, the parties may elect to apply the law of one State to compute damages for all infringing acts.

**Illustration:**

2. Same facts as above except that A's photographs meet minimum originality standards in all three jurisdictions. The parties may choose Patria's law to adjudicate A's damages claim against B, but, absent a valid agreement with C, not against C.

*b. Choice-of-law clauses.* These Principles recognize the freedom of the parties to select the law applicable to their transaction when transferring ownership or licensing rights in intellectual property. The principle of unfettered party autonomy is widely recognized in business-to-business transactions. It admits the choice of a third legal order, not being that of the grantor or of the recipient, even when the chosen law lacks any relationship to the parties, to the right, or to the territory of use. This freedom goes together with the freedom to select a court or an arbitration tribunal sitting in a third State and instructed by the parties to apply the law chosen by them, which will often be the law of the place of arbitration.

A contractual relationship between the parties in cases of infringement may be rare. Nonetheless, if there is a preexisting relationship, the parties may validly enter into a negotiated choice-of-law agreement before the dispute arises. Moreover, after the litigation begins, the parties should also have the ability to enter into contracts that simplify resolution of their dispute and make outcomes more predictable. In

cases that cannot settle because the parties cannot agree on the facts or the application of law to the facts, the opportunity to try the case under an agreed law allows a court to clarify the disputed issues expeditiously. The claim is most likely to be resolved expeditiously if the parties agree that the court will apply its own law.

It can be argued that this choice derogates from the sovereign interests of the States whose law would otherwise be applied. However, those interests are mainly related to the validity of registered rights and other public-law issues, which are not subject to this provision. Further, if policies in a State expressed through substantive rules are so strongly held that they would be outcome-determinative, it seems unlikely that a litigant disfavored by those rules would agree to their application in a negotiated agreement. A mass-market choice-of-law agreement will be enforced only to the extent it is reasonable, under the considerations set out in § 302(5). Finally, the interests of the States are protected by §§ 322-323 on public policy and mandatory rules. Recognition and enforcement of the judgment are also subject to the safeguards of §§ 401-413.

*c. Effect on third parties: security interests.* The Principles' commitment to party autonomy does not permit the parties to choose law that affects the rights of others. See, e.g., § 317 on security interests.

*d. Capacity and validity.* The Principles apply similar safeguards for choice-of-law and choice-of-forum clauses. See § 202(3) and Comments *c* and *d*, and Reporters' Notes 2 and 3.

## REPORTERS' NOTES

*1. Party autonomy generally.* Party autonomy is an important value undergirding these Principles. This approach is consistent with evolving international norms. For example, Rome I art. 3 poses a gener-

al principle of party autonomy. The increasing amenability over the last 30 years of intellectual property issues to arbitration; see, e.g., 35 U.S.C. § 294 (rendering “valid” and “enforceable” clauses for “[v]oluntary arbitration” of “any dispute relating to patent validity or infringement arising under [a] contract”), demonstrates that some States now are willing to commit to party autonomy intellectual property disputes whose resolution the State previously confined to courts in that State. The danger of selecting a law disproportionately favorable to one party is reduced because of the close scrutiny to which the Principles subject any mass-market agreement.

Natural limitations on the freedom of the parties derive from the scope of the issues to be adjudicated under the applicable law. Competition law, foreign-exchange law, protection of consumers, product liability, or transferability restrictions under domestic intellectual property law cannot be contracted away by the parties through a choice-of-law agreement. The law chosen by the parties applies to contractual issues such as the common will and intent of the parties, its existence, its interpretation, its effects, avoidance and termination of the contract, warranties and guarantees, consequences of a material breach such as the duty to put on notice to remedy it, contractual damages and accounting for lost profits, confidentiality, best-efforts clause, or the status of affiliated companies and subsidiaries.

2. *Infringement actions.* Under the Principles, the parties may choose the law applicable to an infringement action after the dispute arises. Recent codifications of private international law accept this notion. See, e.g., Swiss Law on Private International Law art. 110(3); Belgian Code of Private International Law art. 104(2) (for quasi-contractual relations). However, the current draft of the Rome II Proposal, while it poses a general rule permitting the parties to a dispute to choose the applicable law, see Amended Rome II Proposal art. 4, precludes party autonomy for intellectual property infringement actions; see *id.* art. 9. The Principles do not follow the current Rome II approach because efficiency interests are better served by allowing the parties to agree among themselves on the law that will determine what will usually be the monetary consequences of their conduct. Injunctive relief brings the public policies of the affected States more closely to the fore, but the Principles’ preservation of local mandatory rules (see § 323) allows a court to take those interests into account notwithstanding the otherwise applicable law. See also §§ 403(1)(e) and 412(1)(b).

## **Chapter Two**

### **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 a writing, 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. Where particular 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 those requirements.

*c. Preexisting relationship.* The relationship contemplated in § 311(2) includes employment relationships, as well as commissions.

### 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 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 pre-existing 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 Edelweiss 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, 920-21 (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, 91 Entscheidungen des Schweizerischen Bundesgerichts [BGE] II 117, 125 and BGer, Sept. 13, 1957, 83 BGE 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, 125 BGE III 193 (*Anheuser-Busch, Inc. v. Budejovicky Budvar Narodni Podnik*), available at <http://www.bger.ch> (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 a creator's residence 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 issues 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**

**(d) If the subject matter was created pursuant to a mass-market agreement containing a choice-of-law provision, the law designated in the contract, but only if the provision is valid under § 302(5).**

**(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 State in which the right is first exploited and 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, “circonstances de nature personnelle ou professionnelle qui révèlent des liens durables avec ce lieu ou la volonté de nouer de tels liens” [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 person of the author. (Section 313(1)(c) allows an important derogation in the case of salaried and commissioned 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 or commission.* 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 or commissioned parties, 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 or commissioned-work 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. The creators may not be completely without recourse, however, because § 323 of the Principles instructs the court to consider applying the mandatory rules of the forum or of third countries with points of attachment to the employment relationship, and some of these rules may require creator-ownership.

*e. Mass-market 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 mass-market agreements, the Principles require enhanced scrutiny.

*f. 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. Beancount, 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. Beancount 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 des-

ignite 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.austlii.edu.au/au/legis/cth/num\\_act/tpaooora1998n1061998633/](http://www.austlii.edu.au/au/legis/cth/num_act/tpaooora1998n1061998633/); 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](http://www.nafta-sec-alena.org/DefaultSite/index_e.aspx?DetailID=78). 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. 14<sup>bis</sup>(2)(a)*. The Principles' approach may be inconsistent with art. 14<sup>bis</sup>(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 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* 869-76 (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.

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)) because, as defined in the Berne Convention, the point of attachment for country of origin is linked 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. See Berne Convention art. 5(4).

**§ 314. Transferability**

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

**(2) The transferee must comply with any intellectual property recordation requirements of each State for which rights are transferred.**

**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 validity of the grant, 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 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 Court de cassation, première chambre civile [Cass. 1e 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](http://eur-lex.europa.eu/LexUriServ/site/en/oj/2006/l_376/l_37620061227en00280035.pdf). 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 of, 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 of transfer or license governs. The contract or license 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 or license.**

**(3) (a) In mass-market 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 § 302(5), then it should be disregarded and the applicable law should be 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. Both Patria and Xandia require that exclusive grants of intellectual property rights be in writing and signed; 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. 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 two-fold:

1. The intangible subject matter of the transfer or license has been developed by the transferor or licensor in its factories, workshops, or studios. It is aimed at working or being used in a given technical or social environment. Therefore, disputes relating to the contract under which ownership or use of the intangible asset is transferred or authorized are best adjudicated taking into account the law of that State. It is more closely connected to the creation of, as well as to guarantees and warranties pertaining to, this asset than the law of any other State.

2. The licensor's residence will often correspond to the place of "characteristic performance" under European con-

flicts principles. “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). 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).

### REPORTERS’ NOTE

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 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.

**§ 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:**

*a.* 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 and Insolvency**

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

**(2) The laws pertaining to the existence, attributes, and the extent of transferability of intellectual property rights are applicable to secured transactions to the same extent that they apply to**

**other transactions involving 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 habitual 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. incurs only one debt, 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 Principles identified in this Section and the comments should therefore apply whether the dispute is resolved outside bankruptcy or in the context of bankruptcy proceedings.

### REPORTERS' NOTE

For examples of emerging international rules on the law governing security interests, see UNCITRAL Legislative Guide on Secured Transactions, A/CN.9/WG.VI/WP.31/Add.1 (Nov. 22, 2006), available at <http://daccessdds.un.org/doc/UNDOC/LTD/V06/585/73/PDF/V0658573.pdf> 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>; 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](http://www.hcch.net/index_en.php?act=conventions.pdf&cid=72). 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](http://www.oas.org/dil/CIDIP-VI-securedtransactions_Eng.htm), 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>. There has also been discussion of adding rules on secured transactions to the Rome II Proposal. For U.S. law on these issues, see U.C.C. §§ 1-301 (2004), 1-105 (2000), and 9-301 (2004).

## **Chapter Three**

### **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 must take into account such differences in fashioning the remedy.**

**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. For example, in States that are not yet required to conform their intellectual property law to the TRIPS Agreement, certain subject matter or rights may not yet be protected. In that case, the remedy should not reach those States.

*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 of greatest importance 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 they contract 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 bor-

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

The European Union 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 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>. 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 incurring, 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* 146-53 (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 & Comment f; 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](http://www.hcch.net/index_en.php?act=conventions.text&cid=81), 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 habitual 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://europa.eu.int/eur-lex/en/com/pdf/2003/com2003\\_0427en01.pdf](http://europa.eu.int/eur-lex/en/com/pdf/2003/com2003_0427en01.pdf). 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.

### **§ 322. Public Policy (ordre public)**

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

**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 much more restrictive standard than inconsistency with purely domestic public policy. Thus, if the Principles designate a law whose implementation leads to a result manifestly incompatible with those international standards, the court should not apply that law, and instead will follow the forum’s procedures for dealing with public policy challenges. Section 322 is not the only instance in which the Principles take the intensity of public policy into account. In addition to considering the forum’s *ordre public* for cases with international connections, a court applying these Principles should also look to the public policy of other countries implicated in the litigation, 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](http://www.hcch.net/index_en.php?act=conventions.text&cid=32); 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](http://www.hcch.net/index_en.php?act=conventions.text&cid=36); 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](http://www.hcch.net/index_en.php?act=conventions.text&cid=59).

The concept of "public order," while difficult to define with precision, would at least encompass international 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.

2. *Strict application.* It is, however, 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 policies recognized must be genuinely crucial.

Thus, the Principles disfavor the tendency in some courts to announce rules of forum law that must be enforced even if there is little or no connection between an international case and the territory of the forum. For example, U.S. courts have declined to enforce British libel judgments rendered concerning acts of defamation occurring outside the United States, on the ground that a U.S. court's participation in enforcing the judgment would be inconsistent with First Amendment values. See, e.g., *Bachchan v. India Abroad Pubs. Inc.*, 585 N.Y.S.2d 661 (Sup. Ct. N.Y. County 1992); *Matusevitch v. Telnikoff*, 877 F. Supp. 1 (D.D.C. 1995), *aff'd* on state law grounds (table), 159 F.3d 636 (D.C. Cir. 1998). See also *Telnikoff v. Matusevitch*, 702 A.2d 230 (Md. 1997) (enforcing British libel judgment would violate Maryland public policy). It should be noted, however, that defamation standards—unlike norms of intellectual property—remain largely unharmonized and thus present a greater likelihood of policy incompatibility.

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 if, under that State's law, the rules must apply regardless of the law that is otherwise applicable.**

#### **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 refer to especially strongly held local norms whose application to extraterritorially connected parties or events the prescribing State also deems warranted. “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.” Janet Walker, Castel & Walker, *Canadian Conflict of Laws*

§ 1-11.c (6th ed. 2005). Mandatory rules, however, need not be limited to the forum's laws; 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. If, for example, the forum's law would have applied absent the choice-of-law clause, the court would impose the forum's mandatory rule despite the choice-of-law clause.

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 immediate") 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 co-contractants' 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. 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 habitual resident of Xandia, and B, a habitual 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 anti-competitive 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 sev-

eral 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 I 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." 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 dispense 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); 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 I 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 art. 13(2) of the Amended Rome II Proposal and Swiss Law on Private International Law art. 19. For example, suppose a U.S. court were to hear an infringement claim touching a multitude of countries, including France; 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—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

**The law of any State declared applicable under Part III of 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 circum-

stances, 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 renvoi.* In very exceptional cases, § 324 may mean that the forum may apply a law which the courts in the State whose law is deemed to govern would not themselves apply. However, the benefits of avoiding circularity suggest that excluding 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 renvoi gives full effect to party autonomy.

### REPORTERS' NOTE

This Section is directly inspired by art. 15 of the Rome I Convention, 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." A similar solution has been adopted by the Swiss Law on Private International Law art. 14, and most recently by the Belgian Code of International Private Law art. 16.

**Part IV**  
**RECOGNITION AND ENFORCEMENT  
OF FOREIGN JUDGMENTS  
IN TRANSNATIONAL CASES**

**Introductory Note**

Chapter One sets out the criteria for recognizing and enforcing foreign judgments in transnational cases, as defined by the Principles. It deals with the situation in which a judgment has been rendered under these Principles by a court of one jurisdiction and the winning party then seeks enforcement in the court of another jurisdiction, or one of the parties then seeks to rely on the judgment for claim- or issue-preclusion purposes in another jurisdiction. It leaves to domestic law general questions regarding enforcement, such as jurisdictional requirements for entertaining enforcement actions. It also leaves to domestic law the question of enforcing domestic judgments. However, these Principles can be used as guidance in wholly domestic cases. The Principles are animated by the proposition that as courts come to hear broader disputes, a stronger affiliation between the defendant and the State is necessary to support enforcement of the resulting judgment. (That approach is no less appropriate when the court that entertained the dispute and the court enforcing the judgment are courts from different jurisdictions within the same State.)

Because the criteria for enforcement and recognition are identical, the Principles use the terms interchangeably unless otherwise noted. The Principles use the term “enforcement court” to mean any court in which enforce-

ment or recognition is sought. For the distinctions between the two, see ALI Foreign Judgments Project § 2, Comment *b*.

In the main, Chapter One adopts a familiar approach: only a judgment rendered on generally accepted bases of jurisdiction is entitled to recognition. Furthermore, such a judgment is recognized only to the extent it would be recognized in the rendering jurisdiction. In this way, the parties to the initial action know the maximum effect of the judgment at the time they are litigating and can plan accordingly. In addition, the recognition provisions reinforce the safeguards of the Principles by requiring the enforcement court to satisfy itself that the requirements the Principles set out for entertaining the case and adjudicating it were met in the rendering court. Arguably, provisions of this sort, which require a “second look” at jurisdiction and applicable law in the court where enforcement is sought, undermine principles of repose. However, they are necessary in a system that lacks resort to a court, like the United States Supreme Court or the European Court of Justice, with power to exercise coordination authority over the judicial system as a whole. Without a second look, and the possibility that recognition will be denied, the court entertaining the case may lack the incentive to provide rigorous safeguards. The Principles do not permit full-scale relitigation. Instead, the determinations of the rendering court are reviewed on a sliding scale of deference, depending on the importance of the issue and its susceptibility to sharp practice in the rendering court. Such a procedure also operates to encourage the rendering court to explain the reasoning underlying its decisions. The resulting dialogue among participating courts should contribute to a greater understanding of the terms on which international intellectual property disputes are

decided and promote convergence on standards of due process and private international law.

Chapter Two expands the enforcement court's options by giving it some flexibility regarding the scope of its remedial obligation. This flexibility is consistent with international norms. For example, article 44(2) of the TRIPS Agreement permits a member State to limit injunctive relief to deal with local needs if monetary compensation is provided; the Principles similarly allow the enforcement court to conform its award of injunctive relief to what could have been granted under its domestic law, and to award monetary damages in lieu of the full scope of the rendering court's order.

The enforcement provisions proposed here are informed by the ALI Foreign Judgments Project. Both identify situations where enforcement is mandatory, where it is discretionary, and where prohibited. However, the Principles propose distinct solutions for problems that are particular to international intellectual property matters and to the coordinated adjudication envisioned. For example, there is no reciprocity provision comparable to § 7 of the ALI Foreign Judgments Project. The Principles are not designed as the law of any one jurisdiction; accordingly diplomatic objectives related to encouraging enforcement of judgments generally are out of place. Moreover, in multinational intellectual property instruments, reciprocity is rarely the norm. Similarly, the remedial provisions take into account the special role that awards of nonmonetary relief (declaratory judgments and judgments granting injunctions) play in the information industries; they also take account of the public nature of intellectual property rights, and the impact that private judgments can have on the public interest, including local citizenry's

access to medicine, to safe products, and to materials of cultural or political significance. Thus, on the one hand, non-monetary awards are more easily enforced under the Principles than under the ALI Foreign Judgments Project; on the other hand, the enforcement court has greater power under these provisions to alter the remedy so that it does not exceed the award that would have been available had the case been decided locally. Other distinctive provisions on enforcement relate to sections unique to these Principles, such as the special provisions on mass-market agreements and applicable law.

## **Chapter One**

### **In General**

#### **§ 401. Foreign Judgments to Be Recognized or Enforced**

**(1) A court in which recognition or enforcement of a foreign judgment is sought should first ascertain whether the rendering court applied these Principles to the case.**

**(a) If the rendering court applied the Principles, then the enforcement court should recognize or enforce the judgment pursuant to these Principles.**

**(b) If the rendering court did not apply the Principles, then the enforcement court should determine whether to recognize or enforce the judgment pursuant to its domestic rules on recognition and enforcement of foreign judgments.**

**(2) In order to be enforceable, a foreign judgment must be enforceable in the rendering State. Recognition or enforcement should be stayed if the judgment is the subject of review in the rendering State or if the time limit for seeking review in that State has not expired.**

**(3) The preclusive effect given a foreign judgment should be no greater than the preclusive effect of the judgment in the rendering State.**

**(4) For purposes of this Part IV of the Principles, a provisional or protective order rendered in accord with § 214(1) should be considered a judgment entitled to enforcement.**

**Comment:**

*a. Enforcement and recognition distinguished.* These Principles utilize the same definitions of enforcement and recognition as are employed in the ALI Foreign Judgments Project § 2; see § 2, Comment *b*.

*b. Enforcement and recognition under the Principles.* This provision creates two conditions on enforcement and recognition. The first is that the dispute was declared by the rendering court as within the scope of the Principles. Second, the adjudication must be enforceable in the place where the judgment was rendered. In other cases, the enforcement court will rely on local law to determine enforcement.

*c. Reference to the law of the State of the rendering court.* The enforceability of the judgment depends on the law of the State of the rendering court, both as to finality (§ 401(2)) and scope (§ 401(3)). If that law deems the decision final and enforceable, the enforcement court should treat it as such (but see Comment *d*).

*d. Greater or lesser effect.* Applying the rendering court's law on the upper limit of the preclusive effect of the judgment is necessary to allow the parties to understand the stakes of the litigation at the time when they are making litigation decisions. Moreover, if another jurisdiction applies preclusion that would be denied by the rendering court, the parties could inadvertently lose claims or arguments.

It could be argued that the enforcement court should not give an effect lesser than that of the rendering court because that would also undermine the finality of the decision. However, sometimes there are significant local public policies of the enforcement State at stake that the rendering court did not take into account. Accordingly, lesser effect may sometimes be given; see §§ 411-413. For further discus-

sion, see ALI Foreign Judgments Project § 4 and § 4, Reporters' Note 2.

*e. Preclusive effect of dismissals based on the statute of limitations.* A dismissal on the merits, otherwise entitled to recognition, precludes another action on the same set of claims. When a dismissal is based on the statute of limitations, it may be unclear whether it should be accorded preclusive effect. The emerging view is that time bars are substantive—that the applicable law prescribes a time limit and if it is determined that the time has passed, the claim is extinguished. However, a statute-of-limitations dismissal can merely represent a decision by the rendering court that under its procedures, stale claims cannot be adjudicated fairly. In that case, the dismissal should not be recognized as claim-preclusive.

The characterization of statutes of limitations as substantive or procedural poses a general question of private international law beyond the specific ambit of the Principles; see Part I, Introductory Note. Accordingly, it is left to the law in the relevant State. If the law that governs the dispute supplies a substantive limitations provision, that limitations period should be applied to the claim by the rendering court. This is particularly true in cases where the parties chose the law (§ 302), because they may well have anticipated that the chosen law will prescribe the limitations period. If the rendering court dismisses the case on the ground that the claim has expired, a subsequent action on the same claims should be regarded as precluded. If, by contrast, the rendering court applied the forum's procedural rules, rather than the applicable substantive law, to dismiss the action, then the second court should proceed with the case, unless its own procedural rule would prohibit it from entertaining it.

**Illustration:**

1. NicoleMarie is a trademark registered for handbags and accessories in Patria and in Xandia. Patria has a six-year statute of limitations for trademark claims; Xandia's limitations period is three years. The trademark owner initiated an action against David Co., another handbag manufacturer, in Xandia, claiming that David Co. infringed the NicoleMarie mark in both States. The action was brought four years after the alleged infringement occurred and the Xandian court dismissed the action as time-barred. The trademark owner then instituted a second action in Patria, once again asserting four-year-old infringement claims in both Xandia and Patria. David Co. moves to dismiss the action on claim-preclusion grounds.

In order to decide the effect of the Xandian judgment, the Patrian court must determine the grounds for the Xandian dismissal. If the court determines that the claims were dismissed because Xandia has a public policy against adjudication of four-year-old claims, it should not assume that all of the claims are barred in Patria. Since Patria has a six-year statute of limitations for Patrian trademark infringement, the court can entertain the Patrian claim. As to the Xandian claim, the Patrian court must decide whether the Xandian dismissal can also be ascribed to a substantive view of the appropriate length of trademark claims. If the Patrian court decides the Xandian statute of limitations is substantive, then it should recognize the dismissal of that claim as giving rise to a defense of claim preclusion.

*f. Delaying enforcement or recognition pending appeal.*

In some judicial systems, a judgment is entitled to enforce-

ment as soon as it is entered, irrespective of whether an appeal is pending. This rule creates substantial mischief when the appeal reverses aspects of the first judgment. In some cases, local rules (such as the ability to stay enforcement or move for relief of judgment) ameliorate the difficulties. In a multijurisdictional system such as the one contemplated here, however, the better approach is to avoid such problems entirely by creating an exception to the rule of deference to the law of the rendering court's jurisdiction: § 401(2) instructs a court to delay both recognition and enforcement until the time for reviewing the decision is over.

*g. Enforcement of other judgments.* Nothing in this Part addresses a court's authority to enforce a judgment rendered by another court, if the rendering court did not rely on the Principles in the adjudication of the dispute.

## REPORTERS' NOTES

*1. Timing.* Like the ALI Foreign Judgments Project § 1(b), these Principles look to the law of the State of the rendering court to determine when a judgment is final. However, where that Project may permit parties to seek enforcement while there is still time to appeal (ALI Foreign Judgments Project § 2(a)), the Principles postpone enforcement until after the time for review has expired. Waiting for enforcement eliminates the uncertainty and complications likely to attend the complex adjudications envisioned by the Principles. See Hague Convention on Choice of Court Agreements art. 8(4). Cf. ALI Foreign Judgments Project § 2(c) (the statute of limitations on enforcement does not begin to run until the time for review has expired).

Enforcing judgments pending appeal raises a variety of problems. In some cases, litigants are treated differently, depending on whether they joined the appeal, see, e.g., *Federated Dep't Stores, Inc. v. Moitie*, 452 U.S. 394 (1981) (parties who appealed receive different treatment from parties who brought a second action); rights may be uncertain, see, e.g., *Reed v. Allen*, 286 U.S. 191 (1932) (property rights left indetermi-

nate); the appeal may be mooted by enforcement if the situation cannot be restored, see, e.g., *Duncan v. Farm Credit Bank of St. Louis*, 940 F.2d 1099 (7th Cir. 1991) (appeal by mortgagor dismissed as moot because of sale of property by mortgagee pending appeal); *Fink v. Cont'l Foundry & Mach. Co.*, 240 F.2d 369 (7th Cir. 1957) (appeal dismissed as moot because court could not undo sale of property after execution). These problems are compounded in the context of the Principles, where disputes arising under multiple laws and involving multiple parties are being adjudicated. Accordingly, some jurisdictions permit delay of enforcement or recognition of judgments until after the appeal is decided. See Brussels Regulation art. 37(1); cf. Restatement Second, Judgments § 28(1).

2. *Res judicata*. The Principles avoid the term “res judicata” because it has different meanings in different places. Instead, it utilizes the terms enforcement, recognition, and preclusive effect. These terms should be understood to cover the gamut of consequences that a judgment may have.

3. *Characterization of limitations period*. The Principles leave the characterization of the limitations period to the laws of the relevant States. For a full discussion of time bars, see Restatement Second, Conflict of Laws § 142 and Comments *a-g*. The Principles’ approach to recognition is consistent with that of the ALI Foreign Judgments Project § 3(d)(ii), which exempts courts from an obligation to recognize foreign courts’ dismissals of claims as time-barred “unless the party seeking to rely on the judgment of dismissal establishes that the claim is extinguished under the law applied to the claim by the rendering court.” However, Comment *e* of the Principles expresses a view similar to that of the National Conference of Commissioners on Uniform State Laws, Uniform Conflict of Laws-Limitations Act (1982), available at <http://www.law.upenn.edu/bll/ulc/fnact99/1980s/uclla82.htm>, see § 2(a)(1) and Prefatory Note (“[L]imitations laws should be deemed substantive in character, like other laws that affect the existence of the cause of action asserted”).

**§ 402. Default Judgments**

**(1) The enforcement court may not enforce a default judgment from a foreign court unless it determines that the rendering court’s assertion of personal jurisdiction was consistent with the law of the rendering State.**

**(2) The enforcement court need not enforce a default judgment from a foreign court if it determines that the rendering court’s assertion of personal jurisdiction was inconsistent with these Principles.**

**(3) In making any determination listed in subsections (1) and (2), the enforcement court should defer to the facts found by the rendering court.**

**Comment:**

*a. Default judgments generally.* This section implements the same policies as those reflected in § 3(b) of the ALI Foreign Judgments Project; see § 3(b), Comment *c*. It provides the “second look” on jurisdictional issues that is necessary to safeguard due process interests in the absence of a multidistrict coordination authority. In some jurisdictions, if the defendant defaults in the enforcement court, that court will not review *sua sponte* the reasonableness of the rendering court’s assertion of jurisdiction. Default judgments rendered under the Principles, however, are subject to special safeguards. These additional protections are necessary in light of the expanded bases of personal jurisdiction that the Principles establish, and because of the absence of a supranational court competent to ensure that the Principles’ norms are properly applied. The distinction between a prohibition on enforcement and discretion not to enforce mirrors the dichotomy set out in § 403(1) and (2).

Subsection (3) accords with ordinary principles of private international law, which prohibit courts from reexamining the merits of the dispute under the guise of examining procedural regularities (ALI Foreign Judgments Project § 2, Comment d). Enforcement can also be resisted on any of the grounds specified in § 403.

### REPORTERS' NOTE

*Default generally.* The notion that enforcement and recognition are predicated on a review of the jurisdictional basis for decision is not controversial, see, e.g., *Pennoyer v. Neff*, 95 U.S. 714 (1877); Brussels Regulation art. 35(1). In this review, the court is bound by the factual determinations of the rendering court, see, e.g., Brussels Regulation art. 35(2).

#### § 403. Judgments Not to Be Recognized or Enforced

**(1) The enforcement court must not recognize or enforce a judgment if it determines that:**

**(a) the judgment was rendered under a system that does not provide impartial tribunals or procedures compatible with fundamental principles of fairness;**

**(b) the judgment was rendered in circumstances that raise substantial and justifiable doubt about the integrity of the rendering court with respect to the judgment in question;**

**(c) the judgment was rendered without notice reasonably calculated to inform the defendant of the pendency of the proceeding in a timely manner;**

**(d) the judgment was obtained by fraud that had the effect of depriving the defendant**

**of adequate opportunity to present its case to the rendering court;**

**(e) recognition or enforcement would be repugnant to the public policy in the State in which enforcement is sought;**

**(f) the rendering court exercised jurisdiction on the basis of a court-selection clause inconsistent with the safeguards set out in § 202(3); or**

**(g) the rendering court exercised jurisdiction on a basis of jurisdiction insufficient under § 207.**

**(2) The enforcement court need not recognize or enforce a judgment if it determines that:**

**(a) the rendering court exercised jurisdiction on a basis inconsistent with the norms of §§ 201-206;**

**(b) the rendering court chose a law inconsistent with the norms of §§ 301-324;**

**(c) proceedings between the same parties and having the same subject matter are pending before the court designated by § 221 or before a court cooperating in the adjudication or chosen for consolidation under § 222; or**

**(d) the judgment is inconsistent with the judgment of the court designated by § 221, or the actions were coordinated in accordance with § 222 and the judgment is inconsistent with the judgment of the court of consolidation or of the courts that cooperated in resolving the dispute.**

**(3) In making any determination listed in subsections (1) and (2), the enforcement court should defer to the facts found by the rendering court.**

**Comment:**

*a. Nonrecognition generally.* Sections 402 and 403 are the main vehicles for promoting use of these Principles in a manner that protects the parties' interests in due process while providing a means for efficiently adjudicating worldwide disputes. Under § 403(1), the court is to deny enforcement in certain circumstances; § 403(2) permits non-enforcement in certain other instances. The mandatory provisions, § 403(1), are derived from the mandatory provisions of the ALI Foreign Judgments Project §§ 5(a) and (b) and 6(a). The discretionary provisions, § 403(2)(c) and (d), echo the discretionary provisions of the ALI Foreign Judgments Project § 5(c)(ii) and (iii). Subsections 403 (2) (a) and (b) are unique to these Principles; they create a mechanism for enforcing Parts II and III of the Principles. Subsections (1) and (2) should be read in conjunction with § 403(3), which requires the enforcement court to defer to the rendering court on factual issues. The Principles do not otherwise derogate from traditional private international law precepts, such as those barring the relitigation of the rendering court's findings of fact and conclusions of law respecting the merits of the case.

*b. Fundamental fairness, § 403(1)(a)-(d).* These subsections seek to ensure the panoply of generally recognized procedural guarantees, such as an impartial tribunal, both generally and with respect to the rights at issue; proper and timely notice; an opportunity to be heard; and assurances that the judgment was not obtained by fraud. For further discussion, see ALI Foreign Judgments Project § 5, Com-

ments *c-e*, and *g*. See also ALI/UNIDROIT Principles of Transnational Civil Procedure, Principle 1.

A question may arise as to whether a State that has jury trials should consider their unavailability in the rendering court to be “incompatible with fundamental principles of fairness.” As most States do not afford civil jury trials, it is unlikely that, as a matter of international norms, unavailability of a jury trial would violate fundamental principles. Moreover, even in States where jury trials are common, they may be regarded as necessary only for adjudication in courts where they are expressly required.

The availability of discovery could also raise difficult questions. If the State addressed has discovery rules that are more liberal than the State where the trial was conducted, important procedural opportunities would appear to have been lacking. However, before enforcement is denied on this ground, the enforcement court must consider whether there were issues in the case that required more discovery than was available, whether other courts could have provided that discovery in aid of the court entertaining the case, and whether the lack of discovery amounted to a violation of *fundamental* principles of procedure.

**Illustration:**

1. Patentee sues A, a French resident, in France, claiming infringement of parallel French and U.S. patents. A defends on the ground that the U.S. patent is invalid because Patentee had put the invention on sale in the United States for more than a year before the patent application was filed, in violation of 35 U.S.C § 102(a). To demonstrate the offer for sale, A requires discovery of information in Patentee’s customers files. Assume that such discovery is not available under French law, and A loses the case. Patentee tries to

enforce the judgment in the United States and A resists on the ground that the French proceeding was incompatible with fundamental principles of U.S. law.

A's claim should be rejected. The lack of discovery on the on-sale issue does not amount to a fundamental denial of process. Moreover, discovery may have been available in the United States under 28 U.S.C. § 1782, which permits U.S. discovery in aid of foreign proceedings. Note that under §§ 211(2), 213(3), and 413(2), the judgment of invalidity is effective only between the Patentee and A; it does not affect the registration of the patent in the U.S. PTO. Thus, the judgment does not implicate broader public-policy interests of the United States.

*c. The public policy in the State addressed, § 403(1)(e).* The authority to deny enforcement on public-policy grounds is common to all regimes concerned with the enforcement of foreign judgments; see ALI Foreign Judgments Project § 5, Comment *h*. A provision such as this one is especially necessary in Principles involving intellectual property because there are often strong public interests in access to the material protected. Indeed, excessive private control over information can violate free speech norms and undermine the political process. Nonetheless, enforcement of judgments in favor of intellectual property holders should be denied sparingly. Intellectual property rights represent legislative judgments on the appropriate balance between creating incentives to produce information products and taxing those who utilize them. Individual States achieve that balance differently. Thus, at a minimum, the enforcement court should consider only the *outcome* of litigation, not the substance or procedure by which the outcome was achieved. Second, the court should consider how the outcome affects interests in the forum State

and whether any clash with local interests can be softened through the remedial procedures of §§ 411-413. These provisions are explicitly designed to allow the enforcement court to tailor the remedy to local concerns. Most important because of its free speech implications, an order awarding injunctive relief need be locally recognized only to the extent that similar relief could have been granted by courts in the enforcing State in the same circumstances (§ 412). Similarly, a judgment regarding the validity of a locally registered right is valid only *inter se*; see the Illustration above.

Strong arguments have been made that American public policy can be implicated even in cases that lack a territorial connection or nexus with the United States; see ALI Foreign Judgments Project § 5, Reporter's Note 7(d). While these concerns may certainly be important in the context of hate-speech legislation and defamation actions (where these arguments are commonly made), international obligations to respect the territoriality of intellectual property law represent a shared understanding that each nation's interest in intellectual property enforcement is usually coextensive with its borders. As a result, § 403(1)(e) should be reserved for cases where the remedy will deleteriously impact local interests. The provision should not provide an opportunity for relitigation of the case.

**Illustration:**

2. 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 Xandia. Fashion designs are protected under the copyright law of Patria, but not of Xandia. Paco sues Phlash in Patria, claiming damages on account of both distributions. The court awards

monetary damages for the local publication, but declines to award damages for the copies distributed in Xandia. Paco then seeks enforcement of the Patrian judgment in Xandia. Phlash resists enforcement on the ground that the Patrian judgment violates the strong Xandian public policy that fashion wants to be free.

Under the Principles, the judgment should be enforced. Xandia may not invoke *ordre public* to deny enforcement, because Xandia's public policy is not affected by applying Patrian law to events occurring in Patria. By contrast, had the Patrian court erroneously enjoined distribution of the magazine in Xandia, then a Xandian court might properly decline to enforce that part of the judgment. The basis for declining to enforce is not that the Patrian court misapplied Xandian law (that would be relitigating the merits), but that the remedy is repugnant to Xandian public policy.

*d. Choice-of-court agreements, § 403(1)(f) and 2(a).* Section 403(1)(f) deals with judgments of courts that were chosen in a mass-market choice-of-court agreement. It instructs the enforcement court to deny effect to the judgment if the agreement did not include the procedural guarantees set out in § 202. Section § 403(1)(f) applies even if the validity of the mass-market agreement was considered in an earlier phase in the litigation, because a party who is summoned by surprise to a remote forum may be ill-equipped to mount an effective challenge to the alleged agreement. More important, denying the enforcement court discretion to enforce the agreement encourages parties to draft transparent agreements and to choose courts that are fair to all sides.

It is anticipated that the discretionary provisions of § 403(2)(a) will usually come into play when the rendering court is other than the one chosen by the parties. In the case

of negotiated agreements, §403(2)(a) seeks to effectuate two goals: on the one hand, to give effect to party autonomy, on the other, to discourage delay and avoid excess expense. To accommodate both goals, the Principles give the enforcement court discretion to decide whether to enforce the judgment. When deciding, the court should consider whether the party seeking to avoid enforcement was prejudiced by adjudication in a court other than the one selected in the agreement; the costs of relitigation; whether the objection to the rendering court was raised in an earlier stage in the litigation and why the objection was denied; and whether the objection was deliberately waived at an earlier stage. In cases where the parties had entered into multiple and divergent choice-of-court agreements and the rendering court was one of the fora chosen, the enforcement court should consider whether the rendering court was reasonable in light of the factors set out in § 202, Comment *e*.

Section 403(2)(a) is also applicable in two other circumstances: first, to a judgment of a court chosen in a negotiated choice-of-court agreement that the resisting party claims to be invalid under the criteria set out in § 202(2); second, to the judgment of a court other than the one selected in a mass-market agreement. In both cases, an argument can be made that the mandatory provision of § 403(1)(f) should apply. Nonetheless, the Principles take the position that these situations do not present a compelling case for a mandatory approach. When exercising its discretion, the enforcement court should, however, consider whether the party resisting enforcement had an effective opportunity to present its objections to the rendering court.

**Illustrations:**

3. A, a Patrian, sells to B, a Xandian, a software program accompanied by a shrinkwrap license that

specifies that all disputes will be litigated in Patria. B resells the software in Xandia, in contravention of a term in the agreement. A sues B in Patria and the court declares the case within the Principles. B objects on the ground that Patria has no connection to the events and litigation there is burdensome. The Patrian court nonetheless holds the court-selection clause valid, and finds B to have breached the contract. A is awarded damages and seeks enforcement in Xandia; B resists on the ground that the judgment is predicated on a jurisdictional basis inconsistent with § 202.

Because the court in Patria was chosen in a mass-market agreement, § 403(1)(f) is applicable and the Xandian court must consider the legal validity of the agreement *de novo* (bound, however, to the facts found in Patria; see § 403(3)). If the Xandian court decides the agreement was not valid and that the Patrian court would not have had jurisdiction over B in the absence of the court-selection clause, it should decline to enforce the judgment. Allowing the Xandian court to deny enforcement gives teeth to the Principles and encourages parties like A to choose fair fora.

4. Same facts as Illustration 3, except that the choice-of-court agreement between A and B was negotiated. B contends that the forum-selection clause is invalid under § 202(2) because the agreement was improperly executed under the law of the State chosen in the contract. The rendering court rejected this objection.

Section 403(2)(a) is now applicable. The Xandian court may reexamine the Patrian court's legal conclusion. If the Xandian court, on the facts as found by the Patrian court, finds the agreement was properly exe-

cuted, the Xandian court should enforce the judgment (§ 401).

If the Xandian court, on the facts as found by the Patrian court, finds the agreement was not properly executed, the Xandian court may nonetheless exercise its discretion to enforce the judgment.

*e. Jurisdiction, § 403(1)(g) and (2)(a).* Section 403(1)(g) requires courts to refuse to enforce judgments when jurisdiction was obtained in a manner contrary to generally shared norms of fundamental fairness. Barring courts from enforcing judgments predicated on an unfair exercise of judicial power over the defendant encourages plaintiffs to choose appropriate fora and discourages courts from adjudicating cases without jurisdiction. See also ALI Foreign Judgments Project §§ 5(a)(iii) and 6(a)(i)-(iv) and § 6, Comments *a* and *b*.

Section 403(2)(a) is a discretionary provision. Together with § 401, it creates an avenue for encouraging adoption of the Principles and applications of the jurisdictional rules set out in §§ 201-206 by ensuring that a judgment rendered by a court which did apply §§ 201-206 will be recognized and enforced. Section 403(2)(a) adds a stick to this carrot by allowing a court to refuse to enforce judgments when jurisdiction was not obtained consistently with §§ 201-206.

*f. Choice of law, § 403(2)(b).* The Principles recognize that much of the controversy concerning adjudication of multiterritorial intellectual property claims derives from apprehensions that the court will apply laws inappropriate to the multinational character of the case, in particular, that the court will apply its own State's law to the full range of alleged infringements occurring outside the forum. As a result, the Principles take care to distinguish issues going to choice of court from those pertaining to choice of law, and

to propose distinct approaches to each. See, e.g., § 103(1) (“competence to adjudicate does not imply application of forum law”). For this reason, Part III offers provisions on applicable law. The general rule of territoriality strongly informs these provisions. Section 403(2)(b) is intended to ensure that these provisions are respected. Like § 403(2)(a) with respect to judicial competence, § 403(2)(b) offers a carrot-and-stick approach to legislative competence. Judgments applying laws designated in a manner consistent with the rules set out in §§ 301-324 will be enforced. Recognition of judgments that do not is left to the enforcement court’s discretion. Section 403(2)(b) is limited: the enforcement court must, per § 403(3), defer to the rendering court’s factual findings on the choice-of-law issue. Furthermore, in deciding whether to decline to enforce the judgment, the enforcement court should consider whether the objection to applicable law was considered in an earlier phase of the litigation. Accordingly, a rendering court can protect its judgment by providing reasoned decisions for the choices it makes, and the parties are free to urge the court to articulate its views on applicable law for the benefit of the enforcement court. So long as a reasonable jurist could take the court’s position, the judgment should be considered enforceable. This approach thus seeks to provide an additional safeguard against inappropriate extrusions of one State’s norms upon another.

Arguably, the special scrutiny that § 403(1)(f) gives to court-selection clauses found in mass-market agreements should be applied to mass-market choice-of-law clauses. However, the Principles take the position that so long as the party resisting enforcement litigated in a fair forum, it had a fair opportunity to present its objections to the law that was applied.

*g. Inconsistency with the coordination Principles, § 403(2)(c) and (d).* In order to promote efficient adjudication, it is important not only to facilitate parties' applications to coordinate, but also to discourage continued proceedings in other fora once an action has been coordinated. An effective way to discourage those proceedings is to deny enforcement to any resulting judgment. Subsection (c) deals with the situation where the case is pending in courts coordinating or cooperating in the adjudication or in the consolidation court. Subsection (d) deals with judgments inconsistent with the decisions of these courts. These provisions echo the ALI Foreign Judgments Project's approach to *lis pendens*, §§ 11, 5(c)(ii) and (iii).

Section 223(4) permits a court where an action was filed and was suspended on account of coordination elsewhere to revive the action if coordination does not proceed in a timely fashion. It is implicit in § 403(2)(c) and (d) that the judgments in such revived cases are enforceable according to the law of the enforcement court.

## REPORTERS' NOTES

*1. Inconsistency with fundamental procedures in the State addressed.* In the context of these Principles, jury trials and discovery pose the most troublesome issues.

*a. Jury trials.* The availability of jury trials in the United States should not be regarded as a procedure so fundamental as to bar U.S. enforcement of non-U.S. judgments. Although the Seventh Amendment's jury-trial requirement is binding in the courts of the United States (federal courts), it has never been viewed as binding in state courts. See, e.g., Geoffrey C. Hazard, Jr. et. al., *Pleading and Procedure, State and Federal* 1120-22 (8th ed. 1999). Moreover, issues decided in the absence of a jury may be binding for issue preclusion purposes, even in the proceedings of courts where a jury trial would have been required on the precluded issue. See e.g., *Parklane Hosiery Co. v. Shore*, 439 U.S.

322 (1979). Indeed, foreign judgments have routinely been enforced in U.S. courts. See also *Society of Lloyd's v. Ashenden*, 233 F.3d 473 (7th Cir. 2000) (not requiring that identical procedures be used by a foreign court for its judgment to be enforceable).

The converse situation—enforcement of a judgment based on a jury verdict in a jurisdiction that does not use civil juries—should be equally unproblematic. Many jurisdictions that lack civil juries nonetheless use them in special cases and in criminal cases. Thus, the use of a jury should not be considered a breach of fundamental process.

*b. Discovery.* The quality of discovery opportunities may pose a more difficult problem than jury trials, particularly in patent cases where there may be substantive provisions of law that rely on a form of discovery available in the jurisdiction whose law is in issue, but not in the jurisdiction where the case is tried. An example from patent law is a defense of invalidity, where the ground is that the patentee was not the first to invent, 35 U.S.C. § 102(a), and where laboratory notebooks may be a necessary part of the proof. In some cases, there may be opportunities for assistance from other tribunals, such as under the Hague Evidence Convention, or pursuant to U.S. federal law. See 28 U.S.C. § 1782; *Intel Corp. v. Advanced Micro Devices, Inc.*, 542 U.S. 241 (2004) (reading 28 U.S.C. § 1782 to give courts broad discretion to offer assistance). See generally Hans Smit, *American Assistance to Litigation in Foreign and International Tribunals: Section 1782 of Title 28 of the U.S.C. Revisited*, 25 *Syracuse J. Int'l L. & Com.* 1 (1998). See also Council Regulation 1206/2001; see also, *Inc. v. Elta Golf, Inc.*, [2006] SCC 52, ¶ 45 (Can.) (suggesting the use of letters rogatory). Where these procedures are not available, and the failure of proof is attributable directly to their absence, the enforcement court should consider whether the absence gives rise to a lack of fundamental procedural fairness.

The converse situation—enforcement of a judgment rendered after use of discovery devices unavailable in the jurisdiction where enforcement is sought—should not pose a problem. Although the discovery devices available in the United States can be regarded as intrusive, privacy protections are available, see, e.g., Fed. R. Civ. P. 26. See also Fed. R. Civ. P. 16. Accordingly, while approaches and standards differ,

any court interested in participating in a project such as this one is unlikely to view the differences as fundamental.

2. *The public policy in the State addressed.* Section 403(1)(e) deals with incompatibility with the public policy in the State of the enforcement court. The intent is to describe a narrow category of cases. This is not to deny that intellectual property raises difficult policy issues: exclusive control over information through copyright protection can violate free speech norms and undermine the political process. See, e.g., Neil Weinstock Netanel, *Copyright and a Democratic Civil Society*, 106 *Yale L.J.* 283, 364 (1996) (arguing that copyright protects democracy, but that “a copyright of bloated scope . . . would stifle expressive diversity and undermine copyright’s potential for furthering citizen participation in democratic self-rule”). For example, the rendering court might prohibit the reproduction of a trademark in the context of a political commentary depicting the trademark on a T-shirt. Or it might enjoin the public performance of a song parody. Patent rights have direct impact on health and safety. See, e.g., Arti K. Rai, *The Information Revolution Reaches Pharmaceuticals: Balancing Innovation Incentives, Cost, and Access in the Post-Genomics Era*, 2001 *U. Ill. L. Rev.* 173. Both patents and copyright can interfere with scholarly pursuits, as in *CA 2760/93, 2811/93, Eisenman v. Qimron*, 54(3) P.D. 817 (Isr.). See, e.g., David Nimmer, *Copyright in the Dead Sea Scrolls: Authorship and Originality*, 38 *Hous. L. Rev.* 1 (2001); Neil Wilkof, *Copyright, Moral Rights and the Choice of Law: Where Did the Dead Sea Scrolls Court Go Wrong?*, 38 *Hous. L. Rev.* 463 (2001) (focusing on choice of law aspects to the Israeli decision). However, these Principles deal with many of these problems through the remedial provisions of §§ 411-413. Only if these provisions are inadequate should resort be made to public policy. For cases suggesting a remedial approach, see, e.g., *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994); *Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (9th Cir. 1988) (finding “special circumstances” that would cause “great injustice” to defendants and “public injury” were an injunction to issue), *aff’d sub nom. Stewart v. Abend*, 495 U.S. 207 (1990). This approach is particularly appropriate in an international setting, where cultural differences and levels of technological development are so widely disparate. Together, the remedy provisions make sure that the level at which infringement is deterred—or, the level of noncompliance

with intellectual property law—in the State of the court where enforcement is sought is not substantially altered by reason of its adopting these Principles.

Given these other avenues for addressing policy concerns, subsection (e), which echoes provisions of other instruments, see National Conference of Commissioners on Uniform State Laws, Uniform Foreign Country Money Judgments Recognition Act § 4(c)(3) (2005), available at <http://www.law.upenn.edu/bll/ulc/ufmjra/2005final.htm>; Brussels Regulation art. 34(1); the Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention), June 10, 1958, 330 U.N.T.S. 38, available at [http://www.uncitral.org/uncitral/en/uncitral\\_texts/arbitration/NYConvention.html](http://www.uncitral.org/uncitral/en/uncitral_texts/arbitration/NYConvention.html), should be reserved for cases where enforcing the judgment would cause extreme—manifest—incompatibility problems. Permitting nonenforcement (or refusing to enforce elements of a judgment, such as an order for injunctive relief) under such conditions could, in fact, be considered of a piece with the TRIPS Agreement, which also contemplates the possibility that a general obligation imposed on all member States could have a disparate impact for certain members. Indeed, the provisions of TRIPS that deal with these situations could be used to elucidate the determination of when a judgment is manifestly incompatible with public policy. For example, art. 27(2) of the TRIPS Agreement permits a State to exclude otherwise patentable subject matter from the scope of protection when:

necessary to protect *ordre public* or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment . . . .

Similarly, art. 31(b) of the TRIPS Agreement contemplates that efforts to obtain authorization for certain usages can be waived in the case of “national emergenc[ies]” or “extreme urgency.” Finally, all of the major provisions of the Agreement permit limitations that do not unreasonably prejudice the legitimate interests of the rights holder. See TRIPS Agreement, arts. 13, 17, 26(2), and 30; World Trade Organization, Ministerial Declaration of 14 November 2001 on the TRIPS Agreement and Public Health, ¶ 5(b) WT/MIN(01)/DEC/2, available at [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_trips\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.htm) (the “Doha Declaration”).

In some cases, the clash between an intellectual property decision rendered by one court and the public policy of another State may occur because the rendering court failed to carefully consider what law ought to apply to the controversy. To the extent this is true, the matter is more appropriately resolved by reference to the Principles on applicable law, §§ 301-324. These sections and commentary better frame the decision by setting parameters for determining whether an inappropriate law was utilized.

3. *Choice of law.* In France, for example, the traditional rule was that the conflicts rules chosen by a foreign court were reviewed by the court considering enforcement, see Court de cassation, première chambre civile [Cass. 1e civ.], Jan. 7, 1964, JCP (1964) II 13590 (Munzer v. Munzer) (Fr.). See generally Bernard Audit, *Droit international privé* ¶¶ 454-68 (3d ed. 2000) (French judge must verify several conditions, including whether law chosen by the foreign court is consistent with French conflicts rules).

However, this is not the universal approach. For example, the European Convention on Recognition and Enforcement of Decisions Concerning Custody of Children and on Restoration of Custody of Children, May 20, 1980, ETS 105, available at <http://conventions.coe.int/Treaty/en/Treaties/Word/105.doc>, does not permit nonenforcement on choice-of-law grounds, arts. 9-10. The Principles also depart from the ALI Foreign Judgments Project §§ 5 and 6, except to the extent that the court issuing the judgment did not have jurisdiction to prescribe, § 5(c). See Séverine Gressot-Leger, *Faut-il supprimer le contrôle de la loi appliquée par le juge étranger lors de l'instance en exequatur?*, 130 *Journal du droit international* 767 (2003). However, in both the United States and European Union, the interest in the free movement of judgments is especially high and direct review in the courts of last resort provides a check on exorbitant choices. Most important, the jurisdictions subject to the rule barring collateral attack generally share a common approach to law and to choice of law, which makes it unlikely that an incorrect decision by the rendering court will lead to outcomes that are radically wrong. Such is not the case for Principles addressed to the entire world; if it were the case, then §§ 301-324 would not be needed. Given that they are required, it is necessary to give them teeth.

Three approaches are possible. First, conflicts rules could be closely reviewed for accuracy. The approach was rejected because it would lead to relitigation of many cases. Second, the enforcement court could examine the rendering court's judgment to see if the appropriate procedure was utilized. This approach was regarded as overly deferential. Third is the approach chosen: the enforcement court could assure itself that the choices made were not inconsistent with the norms set out in the Principles. This approach is intended to give courts incentives to think carefully about choice of law, to consult with each of the courts from which a consolidated case was drawn, and to articulate the reasons underlying their choices. It is also intended to give parties a disincentive to contend for an unreasonable choice, even if they might achieve that objective in the rendering court.

A sense of the standard of review can be garnered from comparing *Phillips Petroleum Co. v. Shutts*, 472 U.S. 797 (1985), with *Sun Oil Co. v. Wortman*, 486 U.S. 717 (1988). Both cases involved a nationwide class action in which members of the class claimed interest payments on royalties owed on account of the exploitation of gas rights. The cases were litigated in Kansas, but the class members and the leaseholds involved were not all from Kansas. In *Shutts*, the Supreme Court held that Kansas substantive law could not be applied to all of the claims because, in many of the individual cases, the underlying transactions had "little or no relationship to the forum." 472 U.S. at 821. In contrast, in *Sun Oil*, the Court allowed Kansas to apply its own statute of limitations to all of the cases on the theory that limitations periods arguably implicate the procedural concerns of the court entertaining the case.

4. *Factual issues.* Arguably, accuracy would be further promoted by allowing relitigation of factual findings or by making the accuracy of the rendering court's fact finding a presumption, which could be rebutted in the enforcement court. Such a procedure has the added advantage of avoiding questions on how to review mixed questions of law and fact. On the other hand, rearguing facts is costly and time consuming. The traditional private international law restriction on reexamining factual predicates represents an attempt to strike a balance between the interest in finality and the interest in accuracy.

## Chapter Two

### Remedies

#### Introductory Note

States take disparate approaches to remedies. As a general matter, the Principles take these differences into account by applying to remedies the same territorial approach that is used for substantive law (§ 301). Nonetheless, it must be expected that there will sometimes be differences between the remedies ordered by the court that rendered the judgment and the law of the State where enforcement or recognition is sought. First, §§ 302, 311-313, and 321(1) contemplate some exceptions to territoriality. Second, the rendering court may be unable to award a remedy that is not available under its domestic law or it may order relief not available in the court where enforcement is sought. As a last resort, the public-policy provision of § 403(1)(e) will apply. But that provision is meant to be used sparingly; in most instances, normative differences should be reconciled through the remedial provisions of this Chapter. Thus, the enforcement court is not obliged to enforce an award for types of monetary relief that it would not have awarded as the rendering court; it is never required to order local injunctive relief that exceeds the scope of relief available under its domestic law. However, denial of a remedy in the enforcement court does not amend the judgment; rather, the judgment stands, and the party seeking its enforcement can go to a court in another State to obtain fuller relief. Declaratory judgments respecting the invalidity of foreign registered rights are effective only as between the parties.

At the same time, however, it is important to acknowledge that judgments entered pursuant to another jurisdiction's appropriately chosen law incorporate the remedies

envisioned by that law. Thus, assuming the rendering court's judgment is not to be denied enforcement on the ground that the rendering court applied a manifestly unreasonable choice of law, the enforcement court should normally enter the remedy devised by the rendering court.

### REPORTERS' NOTE

*Consideration of local circumstances.* International agreements covering intellectual property recognize the variability of rules on remedies. Thus, the TRIPS Agreement requires member States to empower courts to order injunctive relief, art. 44; it does not mandate such relief in every case. Similarly, damages are measured by local demand, art. 45. The standard for compliance is "effective action against . . . act[s] of infringement," art. 41(1). While the Agreement envisions fair, equitable, and timely procedures, art. 41(2), nothing requires a member to provide a system for adjudicating intellectual property rights that is different from that provided for other rights, art. 41(5). Significantly, the AIPPI Resolution on Question Q174 makes clear that local conditions should be taken into account at the enforcement stage, AIPPI, Q174 Resolution art. 3 [§ 2].

#### § 411. Monetary Relief

**If a foreign judgment is recognized by the enforcement court under these Principles:**

**(1) The rendering court's order awarding compensatory damages, including attorney's fees, costs, accounting for profits, and damages intended to compensate the plaintiff without requiring proof of actual damages, should be enforced; and**

**(2) The rendering court's order awarding noncompensatory damages, including exemplary or punitive damages, should be enforced at least to the extent that similar or comparable damages could have been awarded in the State of the en-**

**forcement court. The enforcement court should take into account whether and to what extent the damages awarded by the rendering court are not punitive but serve to cover costs and expenses relating to the proceedings not otherwise covered by provisions relating to the award of attorney's fees.**

**Comment:**

*a. Noncompensatory damages.* A major difference between jurisdictions is the approach to punitive damages. In some States, these are considered necessary to deter infringement, and awarded as punishment in an amount that reflects the defendant's ability to pay or by applying a multiple to the proven damages. In other places, different approaches are taken to deterrence. Section 411 accommodates this disparity by relieving the court where enforcement is sought of the obligation to award noncompensatory damages in an amount greater than that which would have been awarded under its domestic law.

**Illustration:**

1. Trademark holder receives a judgment in State A that Defendant infringed in both States A and B, and that the infringements were willful. The court awards treble damages for infringements in A in accordance with its own law. Trademark holder seeks enforcement of the judgment in State B, where all of defendant's assets are located.

If the court in State B could not have awarded treble damages in a domestic action, it can limit enforcement to compensatory damages. If Trademark holder wants to recover these damages, it must seek enforcement in State A.

Note that this rule supplies a disincentive to forum-shop: If the Defendant in the Illustration has no assets in A, Trademark holder will have gained nothing by bringing the suit in that jurisdiction in order to take advantage of the availability of treble damages in the rendering court.

*b. Statutory damages.* If the law in the State where the enforcement court is located does not provide for statutory or enhanced damages, the enforcement court may perceive that any damage award not substantiated by a specific showing of injury (right holder's loss or defendant's profits) is noncompensatory. However, not all such awards are punitive in nature. In the United States, for example, statutory damages are awarded in lieu of actual damages and profits in copyright cases (17 U.S.C. § 504(c)) and trademark law uses an analogous approach (15 U.S.C. § 1117(a)). Where there is a statutory basis for this form of compensation, the enforcement court should enforce the full amount of the damages. In other cases, the burden is on the prevailing parties to elicit a characterization of the award from the rendering court.

**Illustration:**

2. Same facts as above. If the rendering court made clear that the damage award was compensatory, Trademark holder can collect the full amount of the award.

*c. Reasonable royalties.* The European Union adopts a remunerative technique akin to statutory damages. When actual damages are not proved, courts in EU States have authority to award the plaintiff a judicially determined reasonable royalty. U.S. courts in patent cases frequently use reasonable royalties as a substitute measure for damages.

*d. Liquidated damages.* When the rendering court gives effect to a contract's specification of damages, the enforcing court should regard the award as the parties' agreement on what amount would have been required to offset the harm to the nonbreaching party. Thus, unless the rendering court specifically characterizes all or part of the liquidated damages as exceeding the amount necessary to compensate, these awards should be regarded as compensatory and fully enforceable. An agreement to submit all monetary relief to the law of a given jurisdiction should be regarded as akin to liquidated damages, and therefore fully enforceable.

*e. Costs and attorney's fees.* States take differing approaches to awards of costs and attorney's fees. The so-called British Rule shifts costs and fees to the loser. Ostensibly, the American Rule requires each party to pay his or her own way. However, some "American Rule" courts may, in fact, cover part or all of these costs by using their discretionary authority to shape awards. An enforcement court in a jurisdiction that awards costs and attorney's fees should take this possibility into account when comparing the relief ordered by the rendering court with the relief that would have been awarded locally.

## REPORTERS' NOTES

*1. Statutory damages.* As in the Hague Convention on Choice of Court Agreements art. 11(1), the court where enforcement is sought need not enforce an award for noncompensatory damages. However, not all awards that are independent of proof of harm are noncompensatory. For example, in the United States, so-called "statutory damages" do not require proof of actual damages and yet they are intended to compensate the plaintiff. These are not considered exemplary or punitive damages, as they are designed to replace income or opportunities lost to infringement. The rendering court typically has considerable discretion to set the award, although the statute may impose a floor and a ceiling. Those States that award statutory damages vest judges with this discretion because they recognize that proving the amount of lost sales can be particularly difficult if the defendant has failed (deliberately or

otherwise) to keep reliable business records. An enforcement court should not decline to enforce an award of statutory damages that are awarded under these circumstances.

2. *Reasonable royalty*. For U.S. examples, see, e.g., *Georgia-Pacific Corp. v. U.S. Plywood-Champion Papers Inc.*, 446 F.2d 295 (2d Cir. 1971) (patents); *On Davis v. The Gap, Inc.*, 246 F.3d 152 (2d Cir. 2001) (copyright; “reasonable license fee”). For the European Union, see Parliament and Council Directive 2004/48/EC of 29 April 2004 on the Enforcement of Intellectual Property Rights, art. 13(1)(b), 2004 O.J. (L 195) 16, available at [http://europa.eu.int/eur-lex/pri/en/oj/dat/2004/l\\_195/l\\_19520040602en00160025.pdf](http://europa.eu.int/eur-lex/pri/en/oj/dat/2004/l_195/l_19520040602en00160025.pdf), art. 13(1)(b).

3. *Liquidated damages*. See, e.g., Restatement Second, Contracts § 356; *Monsanto Co. v. McFarling*, 363 F.3d 1336, 1345 (Fed. Cir. 2004) (applying Missouri law respecting liquidated damages).

## § 412. Injunctions

**(1) (a) Except as provided in subsection (1)(b), if a foreign judgment is recognized by the enforcement court under these Principles, the rendering court’s order awarding an injunction as a remedy for intellectual property infringement must be enforced in accord with the procedures available to the enforcement court.**

**(b) If injunctive relief would not have been available for the enforcement court’s territory had the enforcement court been the rendering court and reached the same decision on the merits, the enforcement court may decline to enjoin or to order the commission of acts within the territory that impact exclusively within the territory. If the court so limits the scope of the injunction, it must award monetary relief in lieu of the injunction.**

**(2) The enforcement court may order such other relief as provided in the judgment, including seizure and destruction of infringing articles and**

**the means of their manufacture or reproduction  
and the publication of the judgment.**

**Comment:**

*a. Forms of relief.* The rendering court's decision on the merits of the action for injunctive relief may be enforced in a variety of ways, depending on local law. In most cases, a local injunction may be issued, but there may be situations in which it is appropriate to achieve the result intended by the rendering court by using forms of relief available under the law of the enforcement court's State. For example, an injunction ordered by a court in the United States might be enforced through a French court's order of an *astreinte*.

*b. Availability of injunctive relief.* The ALI Foreign Judgments Project does not require direct enforcement of injunctive orders (§ 2(b)(ii)), on the theory that injunctions are not transferable from one court to another and that even in "the context of sister-state judgments in the United States," the recognition due to injunctive relief is unclear; see § 2, Comment g. However, intellectual property rights are essentially rights to exclude. Thus, the injunctive award is usually of paramount concern. Transnational adjudication will not be a viable option unless the award in a transnational case is enforceable in all relevant territories.

*c. Circumstances for declining to recognize orders for injunctive relief.* With respect to an injunction that orders the defendant to engage in certain acts within the enforcement court's territory, the enforcement court must give effect to the judgment at least to the extent those acts impact outside the enforcement court's jurisdiction in other territories covered by the injunction. However, unlike many private suits, intellectual property cases have strong public dimensions. Thus, for example, courts use their equity powers to deny injunctive relief to a patentee when the defendant's activity is addressing unmet health and safety needs.

Although the balance between public and proprietary interests are arguably best struck by the court hearing the case on the merits, needs of individual territories may differ in respect to safety and health concerns. For example, the October 2001 anthrax attack created a specific need for the patented pharmaceutical Cipro in the United States that was not experienced in other places. As was the case with Cipro, it is likely that the patent holder will not withhold product from the market in such circumstances. However, if the court entertaining an action ordered multijurisdictional injunctive relief, and the rights holder persists in enforcing the order in a territory with special needs, the enforcement court may refuse it on the ground of local need. The denial of relief should extend only to the area of special need. Compensation must be ordered in lieu of the injunction.

Cultural policies may raise similar concerns. Although the States most likely to participate in these Principles are likely to have also obligated themselves to minimum intellectual property standards through the TRIPS Agreement, there may be situations where access interests are particularly strong. For example, a State whose citizenry lacks a basic education may have a special claim for textbooks translated into local languages; enjoining translation or utilization may be inappropriate for that region. Or the local author of a work may have a unique claim to continue to utilize it after alienation of the copyright; injunctive relief may present special problems with respect to that author. Section 412(1)(b) allows, but does not oblige, a court to decline to impose injunctive relief in such circumstances. In the event an injunction is refused, however, the enforcement court must afford compensatory relief.

Absent the flexibility of § 412, enforcement courts would likely rely more heavily on the public-policy exception of § 403(1)(e). Section 412 offers a better solution because it may afford some scope for injunctive relief and, in

any case, it requires that prevailing right holders receive compensation for use of their property.

*d. Compensation.* When injunctive relief is declined, the court should award compensatory relief in an amount sufficient to afford an effective remedy for that territory and to compensate for future use of the intellectual property at issue. The monetary relief ordered could be less than the amount that the rights holder would have charged. At the most, it would be measured by the price set by local demand. However, in special cases such as pharmaceuticals, it may be even lower than the unregulated market rate. For example, a court can reduce the relief below the market rate in situations where other countries control prices directly, or in situations where there is no international norm requiring that intellectual property rights be accorded to the product. In a case where injunctive relief is regarded as inappropriate, in no event should the compensatory reward, in and of itself, present an obstacle to access.

## REPORTERS' NOTES

*1. Injunctions generally.* Courts have been reluctant to enforce nonmonetary orders awarded by foreign courts. In contrast to monetary judgments, injunctive relief may require the enforcement court to interpret foreign law and provide significant levels of judicial assistance. As one commentator noted, when a court recognizes another court's injunctive order, it permits the rendering court "to reach deeply into [the enforcement court's] enforcement regime," Vaughn Black, *Enforcement of Foreign Non-money Judgments: Pro Swing v. Elta*, 42 Can. Bus. L.J. 81, 89 (2006). Nonetheless, in intellectual property cases, where global transactions are common and injunctions are the core safeguard of exclusivity, courts need to adopt a more flexible approach, see *Pro Swing, Inc. v. Elta Golf, Inc.*, [2006] SCC 52, ¶ 7 (Can.). As the Canadian Supreme Court in that case stated, "such a change must be accompanied by judicial discretion enabling the [enforcement] court to consider relevant factors so as to ensure that the orders do not disturb the structure and integrity of the Canadian legal system." *Id.* ¶ 15. Section 412 (1) provides that discretion: it allows the enforcement court to utilize its own

enforcement procedures and permits it to limit local relief to that which it would have granted had it reached the same decision on the merits of the case.

2. *Health and safety.* It is well recognized in international intellectual property law that health and safety concerns can outweigh proprietary interests. Art. 8 of the TRIPS Agreement specifically reserves to member States the right to formulate and amend law “to protect public health and nutrition”; art. 27(2) allows members to exclude inventions from patentability “to protect human, animal or plant life or health”; and art. 31(b) gives members flexibility to order compulsory licensing of inventions needed to address “national emergency or other circumstances of extreme urgency.” Domestic laws reflect similar concerns, see, e.g., *Hybritech Inc. v. Abbott Labs.*, 4 U.S.P.Q.2d 1001, 1015 (C.D.Cal. 1987) (public interest required that injunction not stop supply of medical test kits that the patentee itself was not marketing), *aff’d*, 849 F.2d 1446 (Fed. Cir. 1988); *Vitamin Technologists, Inc. v. Wisconsin Alumni Research Found.*, 64 U.S.P.Q. 285 (9th Cir. 1945) (public interest warranted refusal of injunction on irradiation of oleomargarine); *City of Milwaukee v. Activated Sludge, Inc.*, 21 U.S.P.Q. 69 (7th Cir. 1934) (injunction refused against city operation of sewage disposal plant because of public-health danger).

3. *Other concerns.* While injunctions typically afford the most basic relief in intellectual property cases, courts, particularly in the United States, have recognized circumstances in which the public interest may be better served by permitting dissemination of the infringing work, while requiring payment to the right holder. See, e.g., *eBay Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1839 (2006) (for an award of injunctive relief, a successful plaintiff must demonstrate, among other things, “that the public interest would not be disserved by a permanent injunction”); *New York Times Co. v. Tasini*, 533 U.S. 483, 505 (2001) (“[I]t hardly follows from today’s decision that an injunction against the inclusion of these Articles in the Databases (much less all freelance articles in any databases) must issue.”); *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994) (suggesting that in cases of high public interest that fall short of fair use, compensatory relief may be preferable to an injunction). Cf. *Stewart v. Abend*, 495 U.S. 207 (1990) (allowing lower court order denying injunctive relief to stand, thereby allowing the rights holder in a motion picture to continue to exploit the work without authorization from the holder of the rights in the underlying story); 19 U.S.C. § 1337(2) (unauthorized importation of copyrighted, patented,

and trademarked material can be barred “only if an industry in the United States, relating to the articles protected . . . , exists or is in the process of being established.”).

4. *Compensation.* The requirement of compensation in lieu of injunctive relief is consistent with the TRIPS Agreement, which contemplates some unauthorized utilization for local circumstances, considered individually, when the right holder receives “adequate remuneration in the circumstances of [the] case, taking into account the economic value of the authorization,” TRIPS Agreement art. 31(h). The economic value is, at most, measured by the amount that locals can afford to pay. However, even under the TRIPS Agreement, it could be lower. For example, the TRIPS Agreement allows countries to refuse patent protection to inventions needed to protect ordre public, including health and the environment, art. 27(2). If a State decides to provide patent protection to an invention that could be excluded, its courts should be allowed to set a price that protects the public by assuring availability.

#### **§ 413. Declarations of Validity, Invalidity, Infringement, and Ownership of Rights**

**(1) Except as provided in subsection (2), declarations by a foreign court of validity, invalidity, infringement, or ownership of intellectual property rights must be recognized and enforced by the enforcement court.**

**(2) If a court in one State declares that a right registered in another State is invalid, the declaration is enforceable only between or among the parties to the litigation.**

#### **Comment:**

*a. Actions in the nature of declaratory relief.* On the theory that declaratory judgments “do not ordinarily call for enforcement,” the ALI Foreign Judgments Project merely authorizes their recognition (§ 2(b)(ii) and Comment g). However, like injunctions, declaratory relief can be important in intellectual property disputes. Further, such determinations can sometimes require enforcement, such as through an order of equitable title, or, in registered rights

cases, removal of the registration from the registry. Thus, the Principles set out an explicit proposal regarding their effect.

*b. Choice-of-law agreements.* When the parties have validly agreed to the law applied in the rendering court, that court's declaration of infringement or ownership should be recognized and enforced. This promotes party autonomy and predictability.

*c. Declarations of invalidity of registered rights.* For reasons discussed in § 213, Comment *c* and Reporters' Note 2, parties are permitted to determine the scope of their legal relationship, even if that requires determining the validity of registered rights. However, judgments of invalidity are effective only between the litigants who were joined in the first action; see § 222, Illustration 6.

In cases where the right is declared invalid, the judgment may put the user of the work in a competitive advantage relative to licensees who must continue to pay royalties to the rights holder. However, that result may work less violence on the innovation policies in the State of registration than would a rule that would invalidate the rights in one State on the basis of a determination by a foreign court. Furthermore, any jurisdiction concerned with inequitable treatment of licensees can institute a procedure for notifying the public of judgments adverse to the patent holder.

As patent law becomes harmonized and more national trademarks and patents stem from single, multijurisdiction applications (such as the Madrid Agreement, the PCT or the EPC), the need to limit the effect of declarations of invalidity may recede.

## GLOSSARY

### Introduction

This glossary provides a brief description of international treaties and conventions in the field of intellectual property as well as some key terms frequently referred to in the Principles.

Thanks to various bilateral and multilateral treaties, intellectual property law is one of the most harmonized areas of law, although differences between the intellectual property laws of individual countries remain in areas not covered by existing treaties. Among the important international instruments are the following:

1. For copyright and the rights of performers, producers of phonograms, and broadcasting organizations (which are covered by copyright in the United States, but are protected as **Neighboring Rights** in some other countries), the Berne Convention for the Protection of Literary and Artistic Works (**Berne Convention**), the WIPO Copyright Treaty (**WCT**), the International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organisations (**Rome Neighboring Rights Convention**), the Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication of Their Phonograms (**Geneva Phonograms Convention**), and the WIPO Performances and Phonograms Treaty (**WPPT**).
2. For patents, the Paris Convention for the Protection of Industrial Property (**Paris Convention**), the Patent Cooperation Treaty (**PCT**), and the Convention on the Grant of European Patents (**European Patent Convention**).

3. For trademarks, the Paris Convention, the Madrid Agreement Concerning the International Registration of Marks (**Madrid Agreement**), and the Protocol Relating to the Madrid Agreement (**Madrid Protocol**).

In addition, there are multilateral treaties covering subject matter such as plant varieties and integrated circuits, numerous instruments harmonizing various aspects of intellectual property law throughout the European Community, and other bilateral and multilateral agreements. The most important treaty, however, is the Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods (**TRIPS Agreement**) which incorporates the Berne Convention, The Paris Convention, and the Treaty on Intellectual Property in Respect of Integrated Circuits by reference and contains significant additional substantive and procedural provisions with respect to all the major types of intellectual property.

The existence and the significance of these international instruments are best understood in light of the history of, and the fundamental principles underlying, modern intellectual property laws. The most important of these principles is the **territoriality principle**. Intellectual property rights are generally understood to be territorial, meaning that the protection afforded by a certain country's intellectual property laws exists only within the territory of that country, not beyond its borders. Consequently, a certain country's intellectual property rights can be infringed only by activities within that country's territory. For example, a United States copyright exists only in the United States and cannot be infringed by a reproduction or distribution of the protected work in another country, such as France. Similarly, a Japanese patent cannot be infringed by the manufacture or sale of the patented product outside Japan, such

as in Australia. However, the reproduction or distribution of the work in France might constitute infringement under French copyright law, just as the manufacture and sale of the patented product might infringe an Australian patent, if one has issued there. As a consequence of the territoriality principle, the author of a work does not own a single universal copyright in the work. Rather, the author will own a bundle of national copyrights, each effective only in the country under whose copyright law the respective national stick of the bundle is protected. The same is true, and may be somewhat more intuitive, with respect to registered rights such as patents or registered trademarks, which need to be applied for and exist only if and where the competent governmental authority has granted or registered them. The principle of territoriality also applies to unregistered trademarks: if rights arise out of use, then the mark will be protected in the country or countries in which the mark has been used, or, for famous marks, in which the mark has gained local notoriety.

The territoriality principle allows for significant differences in intellectual property laws among different countries. Absent contrary obligations under international agreements, each country is free to decide whether or not to grant legal protection for intellectual property (or certain types of intellectual property), and to determine the requirements for protection, as well as the attributes (scope) of the right, and its limits, duration, and all other aspects of its protection. Moreover, absent treaty obligations to grant national treatment, countries are free to discriminate against foreign creators of intellectual property, for example by protecting only intellectual property created by its nationals or within its territory. (With the widespread adoption of international treaties, however, the

national treatment norm now applies to most international intellectual property relations.)

Early intellectual property laws, beginning in the 17th century, often protected only domestic works and inventions. As works and products crossed borders more easily, negative economic ramifications of this regime became apparent. Efforts to improve international protection of intellectual property began in the middle of the 19th century, resulting in the international instruments mentioned above. One of the key tools employed in these instruments is the obligation to provide **national treatment** to foreigners and foreign intellectual property. In other words, foreigners and foreign works must be eligible to receive the same protection afforded to nationals of the protecting country. National treatment alone, however, does not guarantee adequate protection, as some countries (namely net importers of intellectual property) may determine that it is in their best interest to afford no or very limited intellectual property protection to their nationals and foreigners alike. As a result, international instruments are increasingly setting **minimum standards** of protection that are mandatory for all member states. More recently, it has become evident that, even where minimum standards are established, protection may still be ineffective if no meaningful mechanism for enforcement is provided. Thus, effective **enforcement mechanisms** have been made a feature of the TRIPS Agreement. It is important to keep in mind, however, that intellectual property laws may still differ significantly from country to country to the extent they are not harmonized by international agreements.

Another important concept in international intellectual property law is the distinction between **registered and unregistered rights**. Copyright protection is generally afforded as a matter of law upon the creation of a copy-

rightable work. No registration or recordation is required for protection; in fact, the Berne Convention prohibits formalities as a prerequisite for enjoyment of the rights guaranteed by it. Thus, upon creation of a work of authorship, the author will own a (territorial) copyright in each country where the foreign work meets the requirements for protection under domestic law, without further action such as registration or application being required. The situation is different when it comes to patents and other so-called registered rights. An invention is patented only when the competent government authority has, pursuant to a respective application and in most countries following an examination to determine that the invention meets the requirements for protection, granted a patent. No patent protection exists in countries where the owner fails to apply for such protection or where such protection is denied by the competent authority.

For trademarks, regimes are mixed. In many countries trademarks must be registered to be enforceable. As with patents, an application is usually examined to determine whether the requirements for protection have been met. In some countries (including the United States), trademark rights can also arise from use.

For registered rights, the cost of international protection is especially high because applications and examinations must be made in every country in which protection is sought. The main purpose of predominantly procedural international treaties such as the PCT, the EPC, and the Madrid Agreement and Madrid Protocol is thus to facilitate and streamline multinational filings. However, it is important to keep in mind that these instruments do not result in an “international” patent or trademark. They only facilitate the process of obtaining national patents and trademarks in multiple countries. The term “European Patent” is only a

short form designation for a bundle of national and territorial patent rights resulting from a facilitated application under the EPC. This stands in contrast to existing regimes in the European Community regarding the so-called “Community trademark” or the “Community design” (and a pending regime that would establish a “Community patent”) that do create one unitary intellectual property right for the territory of the European Community.

### **Glossary**

- **1968 Convention:** *See* **Brussels Convention.**
- **Berne Convention:** Berne Convention for the Protection of Literary and Artistic Works of September 9, 1886, as revised at Paris on July 24, 1971 (the Paris Act), and most recently amended on September 28, 1979. Apart from the **TRIPS Agreement**, which incorporates the Berne Convention by reference, the Berne Convention is the most important international copyright treaty. It requires automatic copyright protection of works falling within its scope and prohibits conditioning such protection upon compliance with any formalities (such as registration). It sets forth certain minimum standards of protection and requires national treatment of foreign works and a minimum level of protection.

Contracting states are required to protect literary and artistic works of authors who are nationals of another contracting state or whose work has been first published in a contracting state. The Berne Convention prescribes minimum standards of protection for “every production in the literary, scientific and artistic domain, whatever may be the mode or form of its expression.” It requires protecting a core of exclusive rights (such as the right of the author to make or authorize translations, reproduc-

- tions, public performances, broadcasts, and other communications to the public, and adaptations and other alterations), permitting only certain limited exceptions. The minimum required term of protection is generally the life of the author plus 50 years, or 50 years from publication with respect to anonymous or pseudonymous works or cinematographic works. A longer term of protection is, however, expressly permitted.
- **Brussels Convention:** Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters of 27 September 1968. The Brussels Convention is a multilateral treaty among the European Community's member countries setting forth rules on jurisdiction and enforcement of judgments. The Brussels Convention has been replaced by the **Brussels Regulation** (which is identical to the Brussels Convention but for a few modifications) for all member countries with the exception of Denmark.
  - **Brussels Regulation:** Council Regulation (EC) No 44/2001 of 22 December 2000 on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters. The Brussels Regulation is a European Community instrument setting forth rules on jurisdiction and enforcement of judgments that is directly binding on all member countries. The Brussels Regulation replaced the **Brussels Convention** for all member countries except Denmark. The jurisdictional rules of the Brussels Regulation apply whenever a resident of a member country is sued in the courts of a member country. When applicable, the Brussels Regulation's rules supersede national law on jurisdiction and enforcement of judgments. Under the Brussels Regulation, a defendant must be sued in the courts of his or her country of residence, unless one of the specifically

listed other bases for jurisdiction is applicable. With respect to intellectual property disputes, the most important jurisdictional provisions are Art. 5 Nr. 3, which provides for jurisdiction in tort actions, including infringement actions, at the place or places where the harmful event occurred, and Art. 22 Nr. 4, which assigns exclusive jurisdiction to the country of registration in actions concerning the validity of registered rights. Under the enforcement provisions of the Brussels Regulation, judgments of the courts of a member country are generally entitled to full faith and credit in all other member countries, subject only to very limited exceptions.

- **Domain Name:** A domain name is a unique name that identifies an Internet website. Each domain name corresponds to a numeric Internet Protocol (IP) address that is used to route traffic on the Internet. Domain names have two or more parts, separated by dots (e.g., “ali.org”). The last part (e.g., “.com,” “.org,” or “.net”) is referred to as the top-level domain, and the preceding part is referred to as the second-level domain.
- **EPC:** *See European Patent Convention.*
- **EPO:** *See European Patent Office.*
- **European Patent Convention (EPC):** Convention on the Grant of European Patents (European Patent Convention) of 5 October 1973. The EPC establishes a centralized and facilitated system for the application, examination, and grant of patents for EPC member countries (currently 31 European countries). As an alternative to filing separate patent applications in numerous countries in Europe, the EPC allows inventors to file a single application under the EPC and to designate the member countries for which patent protection is sought.

The **European Patent Office (EPO)** examines the application, which may be filed in English, French, or German, based on substantive standards harmonized in the EPC. If these standards are met, the EPO issues patents for each member country which the applicant has designated in the application (collectively, these patents are somewhat confusingly referred to as **European Patents**). Once granted, each such patent becomes independent and is treated like a national patent of the respective designated member country. The main benefits of the EPC lie in the efficient application and examination procedure and a unitary term and scope of protection in all designated member countries.

Patents granted under the EPC may be challenged in an opposition procedure before the **EPO** within a nine-month period after issuance. The opposition applies to all patents granted pursuant to the single application under the EPC (so-called “central attack”).

- **European Patent Office (EPO):** The European Patent Office is the executive body established under the **European Patent Convention (EPC)**. The EPO’s main seat is in Munich, Germany. The EPO’s task is to examine applications for and to grant patents under the **EPC**.
- **European Patent:** The national patents granted under the **European Patent Convention (EPC)** are collectively referred to as European Patents. European Patents are granted for the **EPC** member countries designated by the applicant in the respective application.
- **Geneva Phonograms Convention:** Convention for the Protection of Producers of Phonograms Against

Unauthorized Duplication of Their Phonograms of October 29, 1971 (Geneva Phonograms Convention). The Geneva Phonograms Convention requires contracting states to protect producers of phonograms who are nationals of a contracting state against unauthorized duplication, importation for the purpose of distribution, and distribution of their phonograms. Protection may be granted under copyright or similar rights (such as **Neighboring Rights**) or unfair competition or penal law. The minimum term for protection required by the Geneva Phonograms Convention is 20 years.

- **ICANN:** The Internet Corporation for Assigned Names and Numbers (ICANN) is responsible for managing and coordinating the Domain Name System.
- **Madrid Agreement:** Madrid Agreement Concerning the International Registration of Marks of April 14, 1891, as last revised at Stockholm on July 14, 1967. The Madrid Agreement and the **Madrid Protocol** are sometimes referred to collectively as the Madrid System for the international registration of marks. While the two instruments are related, they are separate agreements (the United States, for example, is a party to the **Madrid Protocol**, but not the Madrid Agreement).

The Madrid Agreement, like the **Madrid Protocol**, facilitates multinational trademark filings by allowing for a single “international application” with the applicant’s national trademark office based on an existing trademark registration in that country (called a “basic registration”). The international application is forwarded to the World Intellectual Property Organization, which in turn forwards it to the contracting states des-

ignated in the application for examination. Unless a designated country refuses protection within one year, the mark is deemed to be protected in that country. The “international registration” results in a bundle of national marks that are independent from each other with the one exception that all resulting trademarks are invalidated if the basic registration is cancelled or invalidated within the first five years from the international registration (so-called “central attack”).

- **Madrid Protocol:** Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (as signed at Madrid on June 28, 1989). The Madrid Protocol, like the **Madrid Agreement**, facilitates multinational trademark filings by allowing for a single “international application” with the applicant’s national trademark office. However, the Madrid Protocol differs from the **Madrid Agreement** in several ways, making it more amenable to accession by the United States. International applications under the Madrid Protocol may be in English, while applications under the Madrid Agreement must be in French. In addition, international applications under the Madrid Protocol may be based on a “basic application,” not only a “basic registration,” allowing for international applications based on U.S. intent-to-use applications. The national examination period under the Madrid Protocol is extended to 18 months and later oppositions are possible. Finally, the consequences of a “central attack” are ameliorated under the Madrid Protocol by permitting the owner to convert the dependent national marks into independent national filings.
- **Moral Rights:** Many countries grant so-called moral rights to creators of copyrightable works. These rights are intended to protect the author’s reputational inter-

est and his or her personal bond with the work. Consequently they are often referred to as “noneconomic” rights. Moral rights typically include the right of attribution (i.e., the right to be named as the author of the work) and the right of integrity (i.e., the right to object to a mutilation or distortion of the work), both required to be protected under the **Berne Convention**, but other moral rights may exist in some countries (including, for example, a right of divulgation (to release the work to the public), and a (little-exercised) right of “repentance and withdrawal”). Moral rights are often nonwaivable and nonassignable. Except with respect to a limited category of works of visual art, the United States Copyright Act does not expressly protect moral rights. However, through the Copyright Act’s derivative work right, unfair competition law, and other state and federal laws the rights of paternity and integrity may sometimes be approximated in the United States.

- **Neighboring Rights:** The term “neighboring rights” typically refers to rights conferred on performers, broadcasting organizations, and producers of phonograms in respect of their activities. In many legal traditions these activities are deemed not to meet the creativity threshold required to qualify for copyright protection. Nevertheless, some protection is typically granted under “neighboring rights” regimes. The scope and duration of protection are often more limited than in the case of copyright protection. In the United States most of these works are protected under copyright. The most important international treaties addressing these rights are the **Rome Neighboring Rights Convention**, the **Geneva Phonograms Convention**, the **TRIPS Agreement**, and the **WPPT**.

- **Paris Convention:** Paris Convention for the Protection of Industrial Property of March 20, 1883 as last revised at Stockholm on July 14, 1967. Apart from the **TRIPS Agreement** the Paris Convention is the most important international treaty relating to “industrial property,” including patents and utility models, trademarks and trade names, industrial designs, and unfair competition.  
  
The Paris Convention requires member states to afford national treatment to nationals of other member states with respect to protection of all industrial property. While the Paris Convention requires protection of the most important categories of industrial property, it contains few substantive minimum standards of protection. The major benefit of the Paris Convention is the right of priority provided with respect to patents, trademarks, and industrial designs. Any person who files an application for a patent (including a utility model, a form of protection similar to, but weaker than, a patent), trademark, or industrial design in a member state is entitled to priority in all other member states for a period of twelve months (in the case of patents) and six months (in the case of trademarks and industrial designs). During the priority period the filing party is protected against any intervening act that might otherwise result in the invalidity of subsequent applications by such party in other countries, including filings by other parties, publication or exploitation of the invention, or use of the mark.
- **Patent Cooperation Treaty (PCT):** Patent Cooperation Treaty, done at Washington on June 19, 1970 as modified on February 3, 1984. The PCT is a procedural instrument that facilitates multinational patent filings and gives patent applicants more time to decide

on the countries in which he or she ultimately wants to seek patent protection.

The PCT permits filing a single, so called “international application” designating any number of PCT member states with the same effect as if a regular patent application had been filed in the patent office of each such member state (but without the need to provide local translations or pay local fees at that time). One of the major designated patent offices then conducts an international search resulting in a report allowing the applicant to better assess the likelihood of patentability in the designated countries. The applicant can then decide on the countries in which he or she wishes to continue to the national stage, and it is not until this time that translations of the application and payment of local fees are required.

Patents resulting from a PCT application are national patents, granted by the competent local patent office according to local patent law. However, since all these patents are based on substantially the same application for the same invention, the claims and other content of PCT based patents will generally be substantially similar (subject to modifications in the course of the prosecution in the national phase).

- **PCT: See Patent Cooperation Treaty.**
- **Rome Convention on the law applicable to contractual obligations (the Rome I Convention):** The main instrument in the member States of the European Union for harmonizing rules of conflict of laws regarding contracts. It may be complemented in the future by a Regulation on non contractual obligations (the Rome II Proposal), currently under discussion. The

- European Union is also considering whether to transform the Rome I Convention into a Regulation.
- **Rome Neighboring Rights Convention:** International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, done at Rome on October 26, 1961. The Rome Neighboring Rights Convention (often referred to as the “Rome Convention”) establishes certain minimum standards of protection for performers with respect to their performances, producers of phonograms with respect to their phonograms, and broadcasting organizations with respect to their broadcasts. The minimum term of protection required by the Convention is 20 years. The Convention also requires national treatment of qualifying performers, producers of phonograms, and broadcasting organizations. The United States is not a party to the Rome Neighboring Rights Convention. However, the **TRIPS Agreement**, the **WPPT** (for performers and producers of phonograms), and the **Geneva Phonograms Convention** (for producers of phonograms) require similar, and sometimes more robust, protection.
  - **TRIPS Agreement:** Agreement on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods. The TRIPS Agreement is a portion of the Agreement Amending the General Agreement on Tariffs and Trade and Creating the World Trade Organization, which was signed on April 15, 1994, at Marrakesh, Morocco. The TRIPS Agreement, which is binding on all WTO member countries, is the most comprehensive and important multilateral intellectual property treaty to date.

The TRIPS Agreement sets forth minimum standards of protection in the areas of copyright and neighboring rights, trademarks, geographical indications, industrial designs, patents, layout-designs of integrated circuits, and undisclosed information. It further requires WTO members to provide certain procedures and remedies in order to ensure effective enforcement of intellectual property rights. Finally, enforcement of obligations under the TRIPS Agreement itself may be effected through the WTO dispute settlement procedures. Generally, the TRIPS Agreement requires national treatment as well as most-favored-nation treatment with respect to all types of intellectual property.

Regarding copyright, the TRIPS Agreement first requires that all WTO members comply with the substantive provisions of the **Berne Convention** (with the exception of Art. *6bis* of the Berne Convention covering moral rights). In addition, it clarifies that computer programs and original compilations of data (as opposed to unoriginal databases that are not required to be protected under the TRIPS Agreement, but are protected in some countries, most notably European Community member countries) are to be protected under copyright. It further adds an exclusive rental right for computer programs and cinematographic works.

With respect to neighboring rights the TRIPS Agreement stipulates minimum standards for the protection of performers, producers of phonograms, and broadcasting organizations.

The TRIPS Agreement also incorporates the obligations of the **Paris Convention** by reference, requiring all WTO members to comply with Paris Convention standards of protection concerning trademarks, patents, industrial de-

## Glossary

signs, and other areas covered by that convention. It also adds important substantive standards to those already contained in the Paris Convention.

The most important provisions include a broad definition of the subject matter eligible for trademark protection, the inclusion of service marks within the protection regime, an express extension of the protection of well-known marks under the Paris Convention to service marks, and detailed minimum standards for the protection of geographical indications and industrial designs.

The TRIPS Agreement establishes significant minimum standards with respect to patent protection, including a requirement that patents be available for any inventions that are new, involve an inventive step (deemed to be synonymous with the term “non-obvious” used in U.S. patent law), and are capable of industrial application (deemed to be synonymous with the term “useful” used in U.S. patent law), whether products or processes, in all fields of technology. It requires protection of the right of a patent owner to prevent the manufacture, use, offer for sale, sale, and import of a patented product, as well as extending such protection to at least the product obtained directly from a process patent. The patent provisions of the TRIPS Agreement further establish boundaries to compulsory licenses and other exceptions to the rights conferred by a patent.

Finally, the TRIPS Agreement incorporates an existing instrument regarding the protection of integrated circuits by reference and establishes certain minimum standards regarding the protection of undisclosed information (*i.e.*, trade secrets).

- **Uniform Domain-Name Dispute Resolution Policy (UDRP):** The UDRP is a dispute resolution policy adopted by the Internet Corporation for Assigned Names and Numbers (ICANN) and incorporated in all registration agreements between Domain-Name registrars and Domain-Name registrants. The policy allows for the resolution of disputes between a trademark owner and a Domain-Name registrant.
- **WCT:** *See* **WIPO Copyright Treaty.**
- **WIPO:** *See* **World Intellectual Property Organization.**
- **WIPO Copyright Treaty (WCT):** The WIPO Copyright Treaty of 1996 confirms certain clarifications already contained in the **TRIPS Agreement**, including the requirement of protecting computer programs and original compilations of data under copyright and granting a rental right at least with respect to computer programs, cinematographic works, and phonograms (subject to certain qualifications). The WCT also requires granting authors a comprehensive right of communicating works to the public, including by way of Internet transmission. Like the **WPPT** the WCT contains provisions regarding the protection of technological protection mechanisms and rights management information as well as an obligation to ensure effective enforcement of rights covered by it.
- **WIPO Performances and Phonograms Treaty (WPPT):** The WIPO Performances and Phonograms Treaty of 1996 is based on the protection of performers and producers of phonograms established in the **Rome Neighboring Rights Convention** and the **TRIPS Agreement** but strengthens the existing regime in several ways, including specifically with respect to digital forms of exploitation. The WPPT requires, at a mini-

mum, the protection of the rights of reproduction, distribution, rental, and making available to the public with respect to performances and phonograms. The term of protection is 50 years. The WPPT also requires affording performers the rights of broadcasting, communicating to the public, and fixating their unfixed performance. Performers are also entitled to moral rights under the WPPT. In addition to these minimum standards of protection the WPPT also requires national treatment of qualifying performers and producers of phonograms. Finally, the WPPT contains provisions regarding the protection of technological protective mechanisms and rights management information as well as an obligation to ensure effective enforcement of rights covered by it.

- **World Intellectual Property Organization (WIPO):** WIPO, headquartered in Geneva, Switzerland, is an agency of the United Nations. Its mission is promoting the use and protection of intellectual property. WIPO currently administers 23 international treaties dealing with different aspects of intellectual property protection.
- **World Trade Organization (WTO):** WTO is an international organization headquartered in Geneva Switzerland. Among other things, WTO administers the WTO agreements, which facilitate international trade in goods, services, and intellectual property. WTO currently has 149 members, while numerous other countries are awaiting admission.
- **WPPT:** *See* **WIPO Performances and Phonograms Treaty.**
- **WTO:** *See* **World Trade Organization**





















