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# THE EUROPEAN APPROACH TO E-COMMERCE AND LICENSING

*François Dessemontet\**

## INTRODUCTORY REMARKS

The Internet and the World Wide Web are widely seen as an American invention, although some of its components have been designed elsewhere (for example, in Geneva). Both its early use among academics and the surge of electronic commerce since 1995 have been fueled by the American demand for more efficient distance selling schemes and cheaper telecommunications. Europe is lagging behind, as are the other continents. In Europe we reach only one third of the U.S. turnover in e-commerce. I submit that legal issues are only a part of the explanation for the late arrival of the European Union to e-commerce. Some features of the tariffs on telephone lines might explain why Internet use is not as affordable in Europe as in the United States. For example, even local calls are not included in the basic phone subscription price, and depending where the surfer lives, he or she cannot even have access at local call rates. Further, most of Europe is a very densely urbanized territory, in which people are physically near shops and service providers. As a result, long-distance selling is not as necessary there as it may be in Montana or New Mexico, or in New York City at peak hours. From a more sociological viewpoint, there is not one common language among Europeans; businessmen often deal in English, but consumers may rather shop in their mother tongue. There are around fifteen main languages on the European continent, and eighty-three altogether.<sup>1</sup>

Finally, the Euro has not yet become a fact of daily life—as will be the case in 2002. The effect of erratic currency exchange rates should not be underestimated. For example, the brilliant book by Lawrence Lessig, *Code and Other Laws of Cyberspace*,<sup>2</sup> costs thirty U.S. dollars plus shipping with Ama-

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1. Tapani Salminen, *UNESCO Red Book on Endangered Languages: Europe* (last modified Sept. 22, 1999) <[http://www.helsinki.fi/tasalmin/europe\\_index.html](http://www.helsinki.fi/tasalmin/europe_index.html)>.

2. LAWRENCE LESSIG, *CODE AND OTHER LAWS OF CYBERSPACE* (1999).

zon.com. This amounts in January 2000 to 47.1 Swiss Francs (at the rate of 1.57 Swiss Francs for one U.S. dollar), but some time ago, thirty U.S. dollars were 33.9 Swiss Francs (at the rate of 1.13 Swiss Francs for one U.S. dollar). This problem does not exist for people who are paid or have bank accounts in U.S. dollars. It does, however, make any order on the Net a bit of a currency gamble for Europeans.

Now, the impact of most of these differences will lessen in proportion to the increasing appeal of e-commerce. Although I submit that factual differences might partially explain why Europeans do not buy much on the Net, I also believe that differences in our legal traditions are partially responsible. Part One of this Article will first discuss these differences, and then explore the current state of the law and the initiatives of the European Union. Please pardon the very summary statements in this short comparison. A more thorough discussion of the complexities of European and U.S. law is beyond the scope of this Article.

In Part Two, I shall report on the present state of affairs in four areas of law regarding intellectual property transactions: electronic signature, consumer protection, liability of internet access and content providers, and finally, conflict of laws. Of necessity, important issues—such as taxation, relationship with public authorities (for example concerning public procurement), domain names, electronic payments, etc. will not be touched upon.

## I. EUROPEAN LEGAL TRADITIONS

### A. *Preeminence of Statutory Law*

In the transatlantic dialogue, the United States relies on self-regulation. Even the safe harbor privacy principles issued as a draft by the Department of Commerce rely on the voluntary decision by private organizations to qualify for the safe harbor.<sup>3</sup> In the United States, consumer protection has been enhanced, for example, by The Web Assurance Bureau-Online Dispute Resolution.<sup>4</sup> Consumer redress is also promoted

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3. See U.S. Dep't of Commerce, *International Safe Harbor Privacy Principles* (visited Mar. 3, 2000) <<http://www.ita.doc.gov/td/ecom/Principles1199.htm>>.

4. See The Web Assurance Bureau (visited Mar. 4, 2000) <<http://www.WebAssured.com/address.htm>>.

through trade associations and chambers of commerce.<sup>5</sup>

The ill-fated attempt to adopt a new Article 2B of the U.C.C. (even if not yet totally dead as the Uniform Computer Information Transactions Act which has been introduced as a bill in five states) shows that the U.S. has not yet resolved to regulate by law, on a nation-wide scale, the basic issues raised by contracting on the Net. The thirty-six state statutes on digital signature evidence the fact that there is less reluctance at the level of State legislatures, but their rules are fragmentary.<sup>6</sup> Common law will address the remaining issues.

But here is the first difference between the U.S. and the European tradition: no common law of contract, libel, defamation, or invasion of privacy exists in Europe. There is no common tradition, say, between France and Germany on the requirement of writing. In France, this requirement is for evidentiary purposes, but in the absence of a writing, no case could be heard by a court of law if the contractual price is over 5,000 French Francs.<sup>7</sup> It is therefore not exaggerated to state that all important agreements must be in writing. On the other hand, Germany requires the written form as a precondition of the validity of the contract, but for much fewer contracts.<sup>8</sup>

As there is no general statute of frauds in all European countries, the requirement of writing can only be based on a legislative or regulatory provision. Now, some thorough studies have found that in Denmark for example, 4,000 legislative provisions require the written form; if regulatory provisions are added, there are approximately 10,000 rules that require a deed to be in writing! In Switzerland, by contrast, the most current listing of provisions requiring the written form would encompass around twenty-five to thirty provisions plus some specific laws.<sup>9</sup> Thus, it is not possible to speak of a common

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5. See generally Roscoe B. Starek III & Lynda M. Rozell, *A Cyberspace Perspective: The Federal Trade Commission's Commitment to On-Line Consumer Protection*, 15 J. MARSHALL J. COMPUTER & INFO. L. 679 (1997); John Rothchild, *Protecting the Digital Consumer: The Limits of Cyberspace Utopianism*, 74 IND. L.J. 893 (1999).

6. See McBride Baker & Coles, *Summary of Electronic Commerce and Digital Signature Legislation, State Initiatives* (visited Mar. 8, 2000) <<http://www.mbc.com/ecommerce.html>>.

7. See C. CIV. art. 1322 (Fr.).

8. See § 126 BGB (F.R.G.).

9. See, e.g., OR art. 14 (Switz.).

tradition of civil law countries either as to the importance of legal requirements for the written form or as to the number of provisions on that topic. All other issues relating to contracting on the Net might give rise to the same array of diverging rules.

Europeans, therefore, cannot rely on common law. U.S. law professors may point to the market, or to the norms of self-regulating business associations as a substitute for legislative measures. But to expect Europeans to rely on something other than the legislature is to be blind to the absence of common law in civil countries, where the only source of *legal rule* is the legislature and where there are no common rules on the market except those deriving from the Brussels authorities. We also rely on these common rules to adopt the adequate framework for e-commerce because there are no other European-wide sources of rules or norms—and the code, that is the software regulating the Net, is not in European hands. However, because the European market is important, the Code developers will have to respect European provisions.

Finally, it should be recalled that the State is the most important single entrepreneur in Western Europe. State economic activities account for approximately a third to half of the Gross National Product (before the privatization of telecoms and other similar activities). The State's attitude towards the Internet for its own business will be of paramount importance, but this favors a regulatory approach.

### B. *Preeminence of European Law*

The second salient feature of recent legal developments is the unique relevance of Brussels' law, meaning the Directives of the European Union as adopted by the Council of Ministers in conjunction with the European Parliament (located in Strasbourg). Of course, national legislatures may go ahead and regulate electronic signatures, as Germany and Italy have done in 1997.<sup>10</sup> Germany just regulated certification authority while Italy went a step further equating electronic signature with handwritten signature.<sup>11</sup> Nevertheless, the priority of

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10. See Law of Electronic and Internet Commerce in Germany, art. 3 (visited Mar. 4, 2000) <<http://www.iid.de/rahmen/iukdgeb.html>>; Italian Digital Signature Legislation, art. 15 (visited Mar. 4, 2000) <<http://mbc.com/ecommerce/legis/italy.html>>.

11. See sources cited, *supra* note 10.

European directives over the national laws is an important constraint for national legislatures, which must adapt whatever prior legislation exists to the newly adopted Directives. This sounds familiar to U.S. citizens and Swiss nationals, since both our constitutions are identical in this regard. Yet it is new to most European parliaments, with the interesting side-effect that many initiatives in the national legislature run into a dead end because opponents may rightfully argue that it is better to wait and see what will come from Brussels. This is what happened to the French proposal on electronic signature of September 1, 1999 adopted by the Government and discussed in the Senate but held back until the European Directive is definitively adopted. In other words, there is a good (or not so good) reason for legislators to drag their feet, and statutes on e-commerce may be more easily adopted in Singapore than in Spain. This is not to say that existing laws can never apply to e-commerce, but they are not tailored to its specific needs. Therefore, it is only logical that the following detailed presentation will focus on the European directives rather than on national laws. Before turning to those particular issues, however, I would finally stress that no European law professor has ever advocated the total autonomy of cyberspace. The ideal of cyber-anarchy is very much American-oriented.

Although Finland might boast to be the country of the Linux inventor, and we have our share of gentle hackers, we most generally believe in the State authority to rule against pornography and revisionist or other hate sites. Let's imagine the case of a virtual casino: in my view, Swiss law will be infringed by a gambling scheme put on the Net by Swiss residents and accessible to Swiss residents who would not have applied for the necessary authorizations—whatever the location of the server.<sup>12</sup> Criminal law application is premised on so many theories that there is always at least one good justification to apply our criminal law, as in this case the principle of universality. We do not smile about it as some U.S. citizens smile or sneer about Colorado or Tennessee law as applicable in cyberspace.

More generally, there is no basic objection to the State providing a legal framework to e-commerce or to the honest

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12. See RS 935.52 (Switz.) (federal law on gambling and casino).

and fair dealing on the Net. Maybe the Internet is a sort of Trojan horse, pushing American ideals of freedom of speech and self-regulation on to the world platform while invading other countries' legal order and basic convictions. If this turns out to be so, however, our legislatures have not taken notice of it yet. Although aware of possible conflicts, we Europeans still believe in the traditional methods of solving conflicts of laws. Somehow, we do not appear to believe that the surfers, and especially the buyers, are on the Net outside the real space world. Suppliers of course are transnational, but then they already were in the last decades of the twentieth century. Therefore, we naturally tend to apply the law of the consumer rather than the law of the provider. This should at first limit the invasion of U.S. law abroad. (In the long run, the Americanization of the world is a sociological phenomenon. At a time when all of our younger attorneys and law professors hold a U.S. LL.M. degree or come on sabbatical to Boston, Washington and San Francisco, how could our law not become Americanized?)

A tentative link can be sketched between the two attitudes. By applying national law rather than some cyberspace law that would of course be heavily influenced by U.S. law, we try to keep some autonomy. By applying the consumer's law, we apply European law in most cases where a U.S. supplier is involved. But for how long can we check the advance of U.S. notions of e-commerce? The question is moot. Legislative autonomy is important inasmuch as it allows Europe to bargain for fair terms and conditions when an international convention of some sort will be prepared. Legislative autonomy is not an end in itself, but a means to reach a balanced solution—for contracting generally, for privacy, for intellectual property protection and transactions, and for conflicts of law.

## II. EUROPEAN SOLUTIONS

### A. *Electronic Signatures and E-commerce*

Electronic signatures do not fulfill the requirement of writing as provided under most European laws.<sup>13</sup> An Europe-

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13. See, e.g., § 126 BGB (F.R.G.); OR art. 14 (Switz.); C. CIV. art. 1322-41 (Fr.) (although an interesting case holds that the PIN as used on banking debit cards is a sufficient signature). See Cass. 3e civ. Paris, Nov. 8, 1989, D. 1990, 369.

an Directive on a community framework for electronic signatures was adopted on November 30, 1999.<sup>14</sup> The goal of this Directive is to ensure that e-commerce benefits from the internal European market, which requires a high level of uniformity be achieved in that sector. It does not purport to consolidate all European texts bearing on e-commerce<sup>15</sup> and it does not regulate the licensing transactions by way of separate provisions. Of course, it is applicable to licensing agreements where the national law requests the transfer or license of an intellectual property right to be in writing (which is not the case for licensing agreements in Switzerland,<sup>16</sup> for example whenever a trademark is transferred, a written deed of assignment or other document must be filed with the Institute for Intellectual Property<sup>17</sup>).

The main distinction drawn in the Directive is between

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14. See Common Position (EC) No. 28/1999 adopted by the Council on 28 June 1999 with a view to adopting Directive 1999/000/EC of the European Parliament and of the Council on a Community framework for electronic signatures, 1999 O.J. (C 243) 2, Annex I [hereinafter Common Position].

15. See Council Directive 97/7/EC of the European Parliament and of the Council on the protection of consumers in respect of distance contracts, 1997 O.J. (L 144) 19 [hereinafter Directive on Distance Contracts]; Directive 97/66/EC of the European Parliament and of the Council concerning the processing of personal data and the protection of privacy in the telecommunications sector, 1997 O.J. (L 24) 1; Council Directive 93/13/EEC on unfair terms in consumer contracts, 1993 O.J. (L 95) 29; Directive 97/55/EC of European Parliament and of the Council amending Directive 84/450/EEC concerning misleading advertising so as to include comparative advertising, 1997 O.J. (L 290) 18; Directive 98/7/EC of the European Parliament and of the Council amending Directive 87/102/EEC for the approximation of the laws, regulations and administrative provisions of the Member States concerning consumer credit, 1998 O.J. (L 101) 17; Council Directive 90/314/EEC on package travel, package holidays and package tours, 1990 O.J. (L 158) 59; Directive 98/6/EC of the European Parliament and of the Council on consumer protection in the indication of the prices offered to consumers, 1998 O.J. (L 80) 27; Directive 98/43/EC of the European Parliament and of the Council on the approximation of the laws, regulations and administrative provisions of the Member States relating to the advertising and sponsorship of tobacco products, 1998 O.J. (L 213) 9; Directive 92/28/EEC of the Council on the advertising of medicinal products for human use, 1992 O.J. (L 113) 13.

16. For the latest case in this regard, see Trib. Commerce Berne, May 29, 1999, in *REVUE DU DROIT DE LA PROPRIÉTÉ INTELLECTUELLE, DE L'INFORMATION ET DE LA CONCURRENCE* (ZEITSCHRIFT FÜR IMMATERIALGÜTER, INFORMATION UND WETTBEWERBSRECHT) 657-59 (1999) [hereinafter *REVUE*].

17. See Federal Law on the Protection of Trademarks, art. 17, para. 2, and Federal Ord. on the Protection of Trademarks, art. 28, para. 1(a) (available at <<http://www.admin.ch/>>).



“electronic signatures” and “qualified certificates.”<sup>18</sup> Therefore, it follows a two-tier approach. On the one hand, the electronic signature is unique, and identifies the sender of a communication. It should also assure integrity of the text. It does, in other words, certify that the sender has expressed his or her intent. It serves both identification and authentication purposes. Nevertheless, software used by the sender may be faulty or unprotected. Thus, the electronic signature is not unquestionably authentic. Only a qualified certificate may remove those doubts. On the other hand, therefore, specific requirements for security are to be met as per Annex I of the Directive.<sup>19</sup>

Understanding the difference between “simple electronic signatures,” even certified by a “cybernotary public,” and “qualified certificates” is essential when it comes to defining the liability of the certifying authority (the so-called “cybernotary public”). The first laws in Germany and Italy did not explicitly address this distinction or which party would bear the increased liability. Where the problem was thoroughly discussed, as in Denmark, the enactment of this statute was stalled. It may explain why Austria does not consider adopting the “two-tier” approach to digital signature but relies instead on Art. 7 of the UNCITRAL Model law.<sup>20</sup> Similarly, Switzerland referred to the general rules on liability of the Code of Obligations, but provided that the liability covers the link between a public key and a given person at the time when the certificate is issued.<sup>21</sup>

Finally, a European Directive about e-commerce has not yet been adopted because of diverging opinions between the Council of Ministers and the Parliament. A new draft of this Directive was adopted by the Council of Ministers on December 7, 1999, seven days after the Directive on Electronic Signature was adopted. But the issues here are more those of consumer protection, to which I now turn.

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18. Common Position, *supra* note 14.

19. *Id.*

20. See *Report of the United Nations Commission on International Trade Law on the work of its twenty-sixth session*, U.N. GAOR, 48th Sess., Supp. No. 17, U.N. Doc. A/48/17, art. 7 (1993). The Model Law generally states that no recognition of signatures must be denied simply because it is in electronic form.

21. See OICP art. 20 (Switz.) (available at <<http://www.bakom.ch/>>).

## B. Consumer Protection

Broadly speaking, consumer protection is needed for licensing transactions as well as for all other commercial operations. The “click-on” license and ensuing download are effectuated for intellectual property rights as for any other goods or wares. However, the peculiar nature of the software imported into the computer of the buyer or licensee differs in three important ways from normal sales of goods on the Net.

### 1. Distance Selling

This is a revolution as far as intangibles are concerned. No longer are intermediaries required. Cheaper prices will mean a booming market for software and cultural goods. From a legal viewpoint, although it is open to some doubts, most commentators appear to believe that the Directive on Distance Contracts applies to licensing agreements.<sup>22</sup> This is unfortunate in two respects:

- a) The idea that a separate written confirmation of the order should be sent via telecopy or ordinary mail is wholly inapplicable for most electronic licensing. There is no practical way to keep records of the transaction save on hard disk. Therefore, the draft Directive on e-commerce provides that the provider is to give an easy, direct and permanent access to some basic information on himself,<sup>23</sup> and also that detailed information on the method for keeping records if any must be given to the licensee or buyer<sup>24</sup>—but no obligation to keep them is provided, save for general terms and conditions.<sup>25</sup>
- b) The right to rescind a distance sale within seven days will be mostly inapplicable to the on-line licensing under the Directive on Distance Contracts, because a general exception to the right of rescission is provided whenever the service is already used by the buyer.<sup>26</sup> Thus, the

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22. Directive on Distance Contracts, *supra* note 15, at 19.

23. Proposal for a European Parliament and Council Directive on Certain Legal Aspects of Electronic Commerce in the Internet Market, 1999 O.J. (C 30) art. 5 [hereinafter Directive on E-Commerce].

24. *Id.* art. 10.

25. *Id.* art. 11(2).

26. Directive on Distance Contracts, *supra* note 15. “Unless the parties have

licensee who will usually use the software or other intangible goods as soon as it is downloaded will not be in a position to revoke the licensing agreement. I do not see that a solution to that question is close at hand.

## 2. Conclusion of the Contract

The contract is formed when the buyer or licensee receives notice through the Net of his or her acceptance by the provider. When the licensee or buyer is not a professional having entered an agreement contrary to that rule, the supplier or licensor has to open appropriate, accessible and efficient means for the consumer to become aware of his possible mistakes during the preliminary steps leading to the click-on licensing, in order for him to remedy them.

There is some drafting uncertainty under Article 11(2) of the draft Directive for e-commerce, providing that "the service provider shall make available to the recipient of the service appropriate means that are effective and accessible allowing him to identify and correct handling errors and accidental transactions before the conclusion of the contract . . ."<sup>27</sup> This should mean that an immediate cancellation of the order must be possible if the order has been made unintentionally. More importantly, the French Conseil d'Etat has suggested that a hyperlink be created so that the professional codes of conduct be embodied as General Terms and Conditions of the contract. It is the first time to my knowledge that Terms and Conditions have been seen as protecting the interests of the consumers. Such a renewed confidence in General Terms and Conditions could allow for the European law and the U.S. self-regulatory approach to converge to a larger extent. But are there general terms and conditions protective of the licensee, in fact? Not to my knowledge.

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agreed otherwise, the consumer may not exercise the right of withdrawal . . . for the provisions of services if performance has begun, with the consumer's agreement, before the end of the seven working day period . . ." *Id.* art. 6(3).

27. Directive on E-Commerce, *supra* note 23, art. 11(2).

### C. *Liability of Access and Site Providers*

The draft Directive allows for a “mere conduit” exemption of liability for access and site providers.<sup>28</sup> This is contrary to the first reading of the Directive before the Parliament, and the push to exempt the access providers is contrary to what has been decided in a few cases. For example, the site provider has been held liable in the *Hallyday* case in France.<sup>29</sup> In Switzerland, the general manager of a telephone company has been sentenced by the Federal Tribunal for not stopping the exploitation of phone sex accessible to minors.<sup>30</sup>

On the other hand, the German law on Electronic signatures of 1997 also shields the access provider from liability if it is unaware of the content of the information. I do not favor such a broad exception.<sup>31</sup> In my view, it all comes down to a correct application of the fault requirement. If an access or a site provider has knowledge or *reasons to know* that a site is practicing swindle or fraud, contributory liability for fault may be recognized. There appears to be no solid ground why Member States should not continue applying their own standards of fault or due diligence. The development of e-commerce does not require any immunity of the very impressive groups like AOL (merging with Time Warner) or Deutsche Telekom (merging with Lagardère), that do not appear to be menaced in their existence by the usual rules on liability. Finally, in any civilized society, those who engage in business have to bear the risks of the peculiarities of their line of business, since they do reap the benefits deriving from those peculiarities.

Of particular interest in this regard are the U.S. notions of contributory infringement of copyright and of ancillary liability.<sup>32</sup> The French approach apparently accepts the notion of

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28. *Id.* art. 12.

29. See *Estelle Hallyday v. Valentin Lacambre*, CA Paris, Feb. 10, 1999 (visited Mar. 7, 2000) <[http://www.legalis.net/jnet/decisions/illicite\\_divers/ca\\_100299.htm](http://www.legalis.net/jnet/decisions/illicite_divers/ca_100299.htm)>. But see generally *Lynda Lacoste v. Multmania Production*, T.GI., Nanterre, Dec. 8, 1999 (visited Mar. 7, 2000) <[http://www.legalis.net/jnet/decisions/responsabilite/jug\\_tgi-nanterre\\_081299.htm](http://www.legalis.net/jnet/decisions/responsabilite/jug_tgi-nanterre_081299.htm)>.

30. See generally *BGE 121 IV 109* (Switz.) (visited Mar. 7, 2000) <[http://www.eurospider.ch/cgi-bin/ListBGEs3?path=/ext2/buge3/data/index/121/index\\_IV.htm](http://www.eurospider.ch/cgi-bin/ListBGEs3?path=/ext2/buge3/data/index/121/index_IV.htm)>.

31. Law of Electronic and Internet Commerce in Germany, art. 1 (visited Mar. 4, 2000) <<http://www.iid.de/rahmen/iukdgeb.htm>>.

32. These issues were raised in *Religious Technology Center v. Netcom On-*

contributory liability, but the introduction of an ancillary liability (as in the area of the printed press) is barely mentioned.<sup>33</sup>

The likely effect of the draft Directive on e-commerce, if adopted, would be to stifle the development of adequate remedies against accomplices. Now this might appear to go beyond the contractual topics which we discuss this morning, but it is clear for every European practitioner that, as soon as a licensee is exceeding the terms and conditions of the license agreement, he is technically infringing the intellectual property right. If the violation of the license agreement is, for example, by way of dissemination of the licensed materials on the Net, then the site providers or even the access provider should, when at fault, be held liable if they undertake nothing against this infringement. As Professor Lessig wrote, intermediaries are pliant targets of regulation;<sup>34</sup> therefore it is better to aim at them than at the individual users of copyrighted materials.

#### D. *Country of Origin and Conflicts of Laws*

The draft Directive on electronic commerce is premised on the mutual recognition of information society services when duly organized under their country of origin. "Country of origin" is nowhere defined for cyber-business, i.e. those virtual facilities that outsource all handling of physical goods to third firms. The country in which the hardware is located is of no particular significance, as has been accepted for jurisdiction purposes in U.S. and Swiss decisions.<sup>35</sup>

The principle of country of origin is a fundamental one for the European Union, since the *Cassis de Dijon*<sup>36</sup> case and the adoption of the directives on the corporations. Nevertheless, many think that consumer confidence towards e-commerce can be enhanced only if the consumer's own courts are competent

Line Communication Services, Inc., 907 F. Supp. 1361, 1382 (N.D. Cal. 1995).

33. See Letter from the Prime Minister to the Vice-President of the Council of State and accompanying Report by the Council of State: Conducting of a study into the Legal Issues Raised by the Development of the Internet, part IV (visited Mar. 4, 2000) <<http://www.internet.gouv.fr/english/textesref/rapcegb/rapcegb.doc>>.

34. See LESSIG, *supra* note 2, at 50.

35. See the "Lyrics" decision by the Federal Tribunal in REVUE, *supra* note 16, at 635-36.

36. Case 120/78, Rewe-Zentral-AG/Bundesmonopolverwaltung für Branntwein v. Cassis de Dijon, 1979 E.C.R. 649, 662.

and his own law is applicable.<sup>37</sup>

As for jurisdiction, Article 5(1) of the Brussels and Lugano Conventions (under revision) allow the court in the place of performance of the contract to exercise jurisdiction.<sup>38</sup> However, Article 13(3) provides for the jurisdiction of the courts of the consumer when a specific proposal or advertisement has been made in the consumer's country of domicile and he has performed the acts necessary to conclude the contract.<sup>39</sup>

Now, when someone pulls from the Net an offer which he then accepts, it is difficult to entertain the notion that a "specific proposal or advertisement" has been made in his country. Therefore, the draft Directive is coherent with the Brussels Lugano Conventions as they stand today. However, a draft Article 13 has been proposed for the new Regulation which should take the place of the Brussels Convention. The opening of the national courts of the consumers for the litigations arising out of e-commerce would result from the revised wording of Article 13(1)(c) requesting only that the seller (or licensor) "directs [commercial or professional] activities to the [Buyer's or Licensee's] State."<sup>40</sup> Actually, the draft Regulation should find a good deal of support. It is not fair to think of the consumer who logs on to the Net as if he or she were going for a weekend shopping spree to London or New York.<sup>41</sup> Virtual shopping is not real travelling, and therefore it should not entail submission to a foreign sovereign's courts of law. Conversely, the licensor or supplier is reaping benefits from his transnational activities. Therefore, he should be subject to the

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37. See, e.g., OECD Forum on Electronic Commerce, Report on the Forum (visited Mar. 4, 2000) <<http://www.oecd.org/dsti/sti/it/ec/act/Paris-ec/pdf/forum-report.pdf>> (offering a synopsis of Philippe Lemoine's speech at the October 1999 OECD Forum on Electronic Commerce). See also Jim Murray, *The Proposed E-commerce Directive and the Consumer*, J. ADVERTISING & MARKETING POL'Y & PRACTISE IN THE EUR. COMMUNITY (1998).

38. Convention on Jurisdiction and the Enforcement of Civil and Commercial Judgments, 2 E.C. BULL. 22 (Supplement) art. 5(1) (1998) [hereinafter Brussels Convention]; Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters—Done at Lugano on 16 September 1988, 1988 O.J. (L 319) 9, 10, art. 5(1) [hereinafter Lugano Convention].

39. Lugano Convention, *supra* note 38, at 12, art. 13(3).

40. See generally Proposal for a Council Regulation (EC) on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters, COM(99)348 final.

41. Interestingly, this was an argument put forward in *Playboy Enterprises v. Chuckleberry Publishing, Inc.*, 939 F. Supp. 1032, 1039-40 (S.D.N.Y. 1996).

jurisdiction of the consumer's country, as he did not restrict his offer to a given territory or set of territories. If by his own volition he sells or licenses abroad, there is no reason for the foreign courts not to entertain claims against him. The only exception could be when his offer is restricted to a given territory; then if he does not sell outside of those, he should not be subject to the jurisdiction of the courts of other territories. Article 5(1) of the present Brussels Convention embodies the same idea when assigning jurisdiction to courts at the place of performance of the contract (which of course is not a practical test for software or other copyright licensing).<sup>42</sup> Tentatively, one could assert that "performance" means in this context the downloading of the item in the licensee's computer.

As to the applicable law, the general rules of the Rome Convention of 1980 (which is undergoing revision) would require that the law of the licensor's country be applied (as this is stated in Article 122 of the Swiss Law of International Private Law).<sup>43</sup> There is again a specific provision for consumer contracts.<sup>44</sup>

Besides more theoretical rationalizations, the usual justification for the licensor's law to be declared applicable is to increase the licensor's confidence in the solution of any possible litigation, and hence encourage his willingness to part with his absolute monopoly over a given intellectual right.<sup>45</sup> However, where mass transactions concerning software or infotainment are at stake, there is no specific need for the licensor to have confidence in his licensees. Rather, in order for e-commerce in Europe to expand, the licensee's diffidence vis-à-vis the licensor should be dissipated. Allowing for the application of the

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42. Brussels Convention, *supra* note 38, at 22, art. 5(1).

43. Article 122 of the Swiss Law of Private International Law reads as follows:

1. Contracts on rights in intellectual property are governed by the law of the country where the transferor or licensor has his habitual residence.
2. A choice of law is permitted.

SR 291.435.1 (Switz.).

44. Convention on the law applicable to contractual obligations opened for signature in Rome on 19 June 1980, 1980 O.J. (L 266) 1, art. 5 [hereinafter Rome Convention].

45. 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, 6-7 (1977).

licensee's law could encourage this. For example, the most interesting questions about the liability of the licensor are not to be left to the licensor's law. If, for instance, a self-destroying software explodes and damages important data of the licensee, when the licensor happens to live in a country where consequential damages are strictly limited to the amount which was foreseeable, the consumer will have little redress for the harm inflicted upon him. Article 74 of the Vienna Convention on the Sales of Goods is not applicable to consumers dealings (and probably not to licensing either, although there is a strong trend in Europe to re-qualify some licensing on basic software as "sale"—thus depriving the licensor of his claims on many a restriction enumerated in the transfer agreement).<sup>46</sup> In my view, for licensing agreements as for other harmful behaviors on the Net (infringement on the right of privacy, on the right of publicity, defamation, libel, swindle, etc.), the applicable law should be established by the following criteria, in order of preference:

- a) the law chosen by the parties;
- b) the law of the licensee;
- c) the law of the place of performance if different from (b) or if (b) is not to be found (e.g. because the licensee is anonymous or is a cyber-space firm with no fixed location);
- d) the law of the licensor.

In the future, closed-system dealings on the Net will be as important as open business transactions. Therefore, party autonomy should prevail between licensor and licensee.

If, as is common, no choice of law has been made for consumer transactions, there are good grounds to protect the consumer and apply its law. It is more a matter of psychological enhancement of the consumers' confidence. The real effect should not be to cripple the entrepreneurs on the Net. To the

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46. United Nations Convention on Contracts for the International Sale of Goods, Apr. 11, 1980, 1489 U.N.T.S. 3, art. 72 (entered into force on Jan. 1, 1988).



extent business-minded entrepreneurs would stop to consider issues of conflicts of law, they would also be advised that the licensing laws of most countries are similar—since almost everywhere there is no restatement or compilation of the private law of licensing which is judge-made law.

Going back to the basics, the choice of the law of the performance of the specific obligation under Article 4 of the Rome Convention can be explained by the fact that the provider of services or supplier of goods is organized in a given environment.<sup>47</sup> In former times, he was organizing his activities taking into account the legal rules and liability in this environment. And in the event of litigation he would be exposed to bankruptcy proceedings or seizure in that country. Now the virtual corporation has few assets, since it outsources most of its commercial activities, and the first consideration—which is far more important—does no longer hold true: in cyberspace the supplier is not mainly organized according to a real space territory. Thus, there is no need to submit the contract to the supplier's law. This is the great difference with most licensing agreements outside e-commerce.

#### CONCLUSION

In this regard, Professor Nimmer's gallant effort to restate the law of licensing in the ill-fated U.C.C. Article 2B should be a source of inspiration for lawyers all across the world who must deal with licensing issues. Never could one read such minute provisions on the various issues raised by licensing, for example, lien or pledges on licensing rights.<sup>48</sup> Further, let me say that many if not most European intellectual property scholars do not share the concern of those who, in the United States, believe that the Constitution would forbid private parties to come to an agreement protective of some rights outside the statutory protection. Private autonomy stands over the goals that are assigned by the promoters of the law and economics approach to the copyright law and other intellectual property statutes.

1. First, the very existence of a well-developed body of unfair competition law supplementing the unavoidable

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47. Rome Convention, *supra* note 44, art. 4(2).

48. See Uniform Computer Information Transactions Act §§ 507, 508 (1999).

loopholes of the statutory intellectual property rights prevents Europeans from viewing the legislative protection of IP rights as an implicit exclusion of all other protection by means of contractual rights.

2. Second, at a time of deregulation, when the State is back to assume its most important functions, leaving the promotion of the economy to the market (not abandoning the police of the market place, thus consumer and privacy protection, of course), it is only fair that private citizens can organize the apportionment of rights among themselves by agreement.
  
3. Finally, there is a whole dimension missing from the U.S. law and economics approach to intellectual property rights: it is not only the U.S. Constitution that sets the framework for the protection of intellectual property rights. In addition to Constitutional protections, the United States is a signatory to the 1966 International Covenant on Economic, Social and Cultural Rights, which states: "The State Parties to the present Covenant recognize the right of everyone . . . to benefit from the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author."<sup>49</sup> Additional protection is also provided by the Universal Declaration of Human Rights, to quote: "Everyone has the right to the protection of the moral and material interests resulting from any scientific, literary or artistic production of which he is the author."<sup>50</sup>

When considered in that light, the right of IP rights-holders to organize their commercial activities as they see fit, so long as they find partners to transact business with, cannot be curtailed by the purpose of the IP statutes.<sup>51</sup> Even if it were found to exist, a public policy based on those statutes could not

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49. *International Covenant on Economic, Social and Cultural Rights*, art. 15, G.A. Res. 2200A, Dec. 16, 1966.

50. *Universal Declaration of Human Rights*, G.A. Res. 217A, U.N. GAOR, 3d Sess., pt. I, 183d plen. mtg. at 71, art. 27(2), U.N. Doc. A/810 (1948).

51. For a different opinion, see generally Mark A. Lemley, *Beyond Preemption: The Law and Policy of Intellectual Property Licensing*, 87 CAL. L. REV. 111 (1999).

override basic human rights that are enshrined in a text ratified by the United States.

The only recourse could be to notions such as the patent misuse of Section 271 of the U.S. Patent Act,<sup>52</sup> or to the fair use provision of the Copyright Act, or more generally to the provisions of the antitrust laws. As has been pointed out, you cannot so easily accept that the licensee “clicks away” fair use<sup>53</sup>—but most of the European laws’ limitations of copyright are not mandatory in my view: licensors and licensees can establish their own regulations for themselves, disregarding the limitation to the copyright that benefit all people not bound by contract.

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52. 35 U.S.C. § 271 (1998).

53. See LESSIG, *supra* note 2, at 197.