12-1-2000

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CHOICE OF LAW AND SOFTWARE LICENSES: A FRAMEWORK FOR DISCUSSION

Kathleen Patchel*

I. INTRODUCTION

As intellectual property becomes an increasingly important commodity in international transactions, the choice-of-law principles applied to determine the substantive law that will govern this type of international contract become increasingly important as well. Most current choice-of-law regimes were not designed with software licensing in mind, or, in the United States, even primarily with international transactions in mind. It thus seems important to ask what are the appropriate rules for selecting the law applicable to the contractual aspects of the licensing of software? Are the choice-of-law rules that govern other contracts appropriate for application to licenses, or are there differences between contracts in which software is the commodity versus goods and services that should lead to different choice-of-law rules?

This Article suggests a framework for thinking about these issues, grounded in consideration of the interests affected by choice-of-law rules, the way in which various choice-of-law rules reflect those interests, and the nature of intellectual

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1. As Professor Mathias Reimann has noted:

The paradigmatic American conflicts case is an interstate affair. The modern approaches to personal jurisdiction and choice of law have thus been developed in the domestic context and for use in a federal system. For decades, American conflicts law almost completely neglected the international dimension. Even since American courts and scholars occasionally began to consider it, the international scene continues to be treated as a side show that requires merely minor modifications of homespun rules.

MATHIAS REIMANN, CONFLICT OF LAW IN WESTERN EUROPE: A GUIDE THROUGH THE JUNGLE 19 (1995) (citations omitted). The domestic orientation of U.S. conflict of laws is in sharp contrast with the European approach. Because in most European countries, even those like Germany that have a federal structure, the court systems, private law and procedure are by and large nationally uniform, "conflicts issues involve, almost by definition, two or more nations." Id. at 20.
property. Part II identifies and briefly discusses the most important interests to be taken into account in structuring a system of choice-of-law rules. Part III discusses how some of the most important choice-of-law methodologies balance these interests. Part IV then considers whether there are characteristics peculiar to software licensing that should be taken into account in formulating contractual choice-of-law rules that provide an appropriate balancing of interests in this area. Finally, Part V analyzes the choice-of-law provision in section 109 of the Uniform Computer Information Transactions Act (UCITA) in terms of the framework previously established.

In developing this framework, the focus is on software transactions—the paradigm transaction is a license of software, and the paradigm intellectual property regime is copyright. In addition, the focus on choice-of-law rules is limited to choice-of-law rules of the United States and the European Union.

II. INTERESTS IMPACTED BY CHOICE-OF-LAW RULES

Three distinct sets of interests are affected by a forum's choice-of-law rules: (1) the concerns of the parties to the transaction; (2) the concerns of jurisdictions that have an interest in the substantive law that will apply to the transaction; and, (3) the concerns of the system of jurisdictions among which the choice-of-law rules will operate.

A. Concerns of Parties to a Multi-Jurisdictional Transaction

The parties to a multi-jurisdictional transaction have the most obvious interest—in terms of immediacy and visibility—in the choice-of-law rules that will be applied to select the law that will govern their relationship. Party concerns that must be considered in developing choice-of-law rules include: (1) certainty and predictability, (2) protection of party expectations, (3) fairness, (4) freedom to select substantively favorable law, and, (5) uniformity of application.

1. Certainty and Predictability

A primary concern of the parties to a multi-jurisdictional transaction is certainty and predictability as to the law that will govern the transaction. This is particularly true with re-
ard to contractual relationships, which as planned transac-
tions, may involve reliance on the application of particular
legal rules in order to effectuate the parties’ agreement. The
clearer the choice-of-law rule that applies, the less transaction
costs the parties will have in determining the validity and
legal consequences of their contract.

2. Party Expectations as to the Applicable Law

Protection of the parties’ expectations is a second concern.
Parties are likely to have expectations about the law that will
govern their contract and may act in reliance on those expecta-
tions. Although this concern is related to the concern about
certainty and predictability, the two are distinct: a choice-of-
law rule could be very clear, but nevertheless point to the law
of a jurisdiction the application of which would not be consis-
tent with the expectations of one or both of the parties.

2. See, e.g., RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 6(2)(f) (1971)
(listing “certainty, predictability and uniformity of result” as factors relevant to
choice of the applicable rule of law) [hereinafter RESTATEMENT (SECOND) CONFLICT
OF LAWS]; Id. § 187 cmt. e (noting that “[p]rime objectives of contract law are to
protect the justified expectations of the parties and to make it possible for them
to foretell with accuracy what will be their rights and liabilities under the con-
tract”).

3. See, e.g., id. § 6(2)(d) (listing “the protection of justified expectations” as a
factor relevant to choice of the applicable rule of law). Comment g to section 6
states that protection of justified expectations

is an important value in all fields of the law, including choice of law.

Generally speaking, it would be unfair and improper to hold a person
liable under the local law of one state when he had justifiably molded
his conduct to conform to the requirements of another state.

Id. § 6 cmt. g. Cf. Gene R. Shreve, Choice of Law and the Forgiving Constitution,
71 IND. L.J. 271, 286 (1996) (“A party may be protected from the choice of unfa-
vorable law if the party reasonably and to his detriment relied on the application
of favorable law. The policy justifying this—variously termed party expectations,
avoidance of unfair surprise, or foreseeability—is well accepted in conflicts theo-
ry.”).

4. The clarity of the choice-of-law rule, of course, would be relevant in deter-
mining whether the expectations were “justified” or “reasonable,” qualifications that
may be relevant in determining the weight to be given to expectation concerns in
the overall balance of interests for purposes of formulating choice-of-law rules. See
RESTATEMENT (SECOND) CONFLICT OF LAWS, supra note 2, § 6 cmt. g.
3. Fairness

The fairness of applying the law selected by the choice-of-law rule is a third concern. Again, this concern is closely related to, but distinct from, concerns of certainty and predictability and protecting party expectations. One can argue that it is fair to apply the law of a particular jurisdiction because it was clear under applicable choice-of-law rules that it would apply. One can also argue that it is fair to apply the law of a particular jurisdiction because the parties should have expected that law to apply, for example, because of the nature of the parties' contacts with that jurisdiction.\(^5\) One can also argue, however, that it is fair to apply a particular law because the substance of the law is such that it does the parties no harm. Fairness, in other words, is an amorphous concept, but is clearly an important choice-of-law consideration for the parties to a multi-jurisdictional transaction.

4. Freedom to Select Substantively Favorable Law

A fourth concern that parties to planned transactions may have is the ability to pick a substantively favorable law to govern the transaction. A party might want to be assured that a particular law would apply, for example, because its rules would give her an advantage in the transaction not available under other law. A law also might be viewed as substantively favorable by the parties because it is well-developed with regard to the subject matter of their contract, because it is a law with which they are familiar, and/or because it is viewed by both parties as "neutral" in not unduly favoring either party.\(^6\)

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5. See, e.g., \textit{Restatement (Second) Conflict of Laws, supra} note 2, § 6 cmt. g (tying fairness to justified expectations of the parties).

6. See, e.g., id. § 187 cmt. f (discussing the rationale for allowing parties to choose the law of an unrelated jurisdiction, if the parties have a reasonable basis for the choice). Comment f states:
The parties to a multistate contract may have a reasonable basis for choosing a state with which the contract has no substantial relationship. For example, when contracting in countries whose legal systems are strange to them as well as relatively immature, the parties should be able to choose a law on the ground that they know it well and that it is sufficiently developed. For only in this way can they be sure of knowing accurately the extent of their rights and duties under the contract. So parties to a contract for the transportation of goods by sea between two countries with relatively undeveloped legal systems should be permitted
This concern again is related to the concern about certainty and predictability because, to the extent choice-of-law rules are clear, the parties may be able to structure their transaction in a way that causes the choice-of-law rules to point to the jurisdiction with substantively favorable law. The concern, however, is an independent one because a choice-of-law rule that provides certainty and predictability might also operate to exclude the possibility of selecting the law viewed as favorable by one or both of the parties.

5. Uniformity in Application

Finally, the parties have a concern that application of choice-of-law rules be uniform, both within a particular forum and among the potential fora.\(^7\) Parties who have relied on the application of a particular law in structuring their deal will be concerned that the choice-of-law rules actually applied in the event of a dispute are those that they assumed would be applicable, and that those rules are applied in a fashion consistent with the way they have been applied by that forum in the past. As with the other concerns discussed, this interest is related to the interest in certainty and predictability—the parties cannot be assured certainty and predictability unless the rules they have assumed would apply are in fact applied to their transaction, and are applied as they have been in the past. Conversely, choice-of-law rules sufficiently clear to allow the parties to predict with an acceptable degree of certainty what law will apply to their transaction also are likely to be those most capable of consistent application.

The concern of uniform application among potential fora also protects the parties from forum-shopping.\(^8\) If the parties' transaction leads to litigation, the choice-of-law rules applied will be those of the forum.\(^9\) Thus, by selecting the forum in

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\(^7\) See, e.g., id. § 6(2)(f) (listing "uniformity of result" as a factor relevant to choice of the applicable rule of law).

\(^8\) See id. § 6 cmt. i (noting that uniformity of choice-of-law rules discourages forum shopping).

\(^9\) See EUGENE F. SCOLES & PETER HAY, CONFLICT OF LAWS § 3.1, at 49 (2d ed. 1992).
which to file suit, the party who initiates court action also chooses—at least initially—the applicable choice-of-law rules. In the absence of some argument that allows her to change the forum—such as forum non conveniens or an enforceable choice of forum clause—the defendant thus is subject to the choice-of-law rules picked by the plaintiff. If the available fora have different choice-of-law rules, which are likely to lead to the application of different substantive law, those differences may become a factor in the plaintiff's choice of forum.

Although it might be argued that uniform choice-of-law rules across potential fora are primarily a concern of the defendant, in fact, at the time the transaction is entered, they will be an important concern of both parties. First, at that point, the desire for certainty and predictability as to applicable law will be more important to both parties than the ability to second-guess the applicable substantive rules in the event of litigation. At this stage, the parties are much more likely to be focused on effectuating their agreement than on gaining a strategic advantage in the event their deal falls apart. Further, at the time the transaction is entered into, neither party is likely to know with any degree of certainty whether she will be the plaintiff or the defendant in any ensuing litigation, and, thus, whether she will benefit from the ability to forum shop with regard to choice-of-law rules. Finally, even at the litigation stage, the plaintiff cannot be sure that nonuniform choice-of-law rules will work to her advantage. The plaintiff’s choice of forum may very well be dictated by concerns other than choice-of-law rules, such as the presence of personal jurisdiction over the defendant, the convenience of the forum, and the potential enforceability of any judgment obtained there. Therefore, even from the perspective of litigation strategy, the plaintiff as well as the defendant may benefit from uniform choice-of-law rules that neutralize choice of law as a consideration in choice of forum.

6. Planning Concerns Versus Fairness Concerns

As the above discussion illustrates, parties to multi-jurisdictional transactions have an important set of distinct, although interrelated, interests that must be taken into account in structuring a choice-of-law regime. These concerns, however, are not of uniform importance to all parties in all multi-juris-
dictional transactions or even, in many instances, to both parties to the same multi-jurisdictional transaction. Thus, a framework for analyzing choice-of-law regimes in terms of the balance they strike between competing interests must take into account the fact that the concerns of the parties may conflict with each other, as well as with the concerns of interested jurisdictions and the system as a whole. Party interests often will need to be balanced against each other as well as against these other interests in formulating a choice-of-law regime.

The parties' interests can be divided into roughly two types: (1) planning-related concerns, which focus primarily on the parties' ability to plan their transactions in an efficient and effective manner; and, (2) fairness-related concerns, which focus on the fairness of applying the substantive law chosen by the choice-of-law rules.\textsuperscript{10} Party interests that focus primarily on planning-related concerns are: (1) certainty and predictability; (2) freedom to select substantively favorable law; and, (3) uniformity of application. The primary focus of the interests in (1) protection of party expectations, and (2) fairness, is with the fairness of the application of a particular substantive law.

The extent to which these various interests are important to the parties to a contract depends on the nature of the transaction in which those parties are engaged. Planning-related interests obviously are of primary importance to parties who are concerned about being able to plan their transactions in light of the application of a particular body of law. As Professor Bill Woodward has demonstrated in a slightly different context, this group is considerably less than all contracting parties.\textsuperscript{11} In many transactions it is inefficient for at least one of the parties to the transaction to incur the time and expense necessary to become sufficiently informed about the content of potentially applicable laws for choice of law to become a salient point in that party's contracting considerations.\textsuperscript{12} On the other hand, it is efficient for the parties to take choice-of-law con-

\textsuperscript{10} This is only a rough division because, as the above discussion illustrates, although each of the concerns has distinct aspects, they are interrelated, and, therefore, may, in a given situation, serve both planning and fairness functions.


\textsuperscript{12} See id. at 261.
siderations into account in planning their transaction when either: (1) the size of the transaction justifies the expenditure; or, (2) the party is a "repeat player," engaging in a number of similar transactions, so that the costs can be spread over all of the transactions.\footnote{See id. at 265-66.}

Based on this analysis, those of the interests discussed above that can be described as primarily planning concerns may be very important to a repeat player or to the parties to a large transaction, but of little or no importance to someone engaged in a small, one-time licensing transaction. Thus, for example, if one is entering into a large, multinational licensing transaction, the ability to choose a well-developed, neutral law may be an important factor. If on the other hand, one is purchasing one piece of mass-market software off the shelf from a company that is the national of another country, choice-of-law considerations are unlikely to be a conscious part of the decision to purchase. Choice-of-law rules often will become a significant issue for one-shot parties engaged in small transactions only after the fact, once litigation is imminent. For one-shot parties, then, the more important concerns are likely to be party expectations and fairness considerations.

This is not to say that party expectations and fairness considerations are not important as well to those for whom it is efficient to engage in choice-of-law planning. For parties for whom it is efficient to plan, however, those concerns need not be of primary importance. The interrelatedness of the various party concerns means that these concerns will be addressed for those parties indirectly by choice-of-law rules that value their planning-related interests. For one-shot parties, however, those concerns will be a more important focus, and their interests will be served more effectively by choice-of-law rules that value those interests directly.

\textbf{B. Concerns of Interested Jurisdictions}

A second group of interests that choice-of-law rules should take into account are those of jurisdictions within the multi-jurisdictional system that have an interest in which substantive law is applied.\footnote{The word "interest" here is used in a general sense, to denote some rea-} State interests implicated by choice-of-law
rules include: (1) an interest in controlling activities within the state's territory; (2) an interest in furthering the state's policy determinations; (3) an interest in protecting the state's citizens and domiciliaries; and, (4) an interest in controlling the use of the state's judicial resources. Normally these concerns form the basis for a claim to application of the jurisdiction's law to the transaction, although this is not inevitably the case.

1. Territorial Interests

One concern of interested jurisdictions is a territorial interest—the interest of a sovereign in controlling activities that take place within its borders. Sovereignty is most commonly defined in terms of control over a geographical area; therefore, a core aspect of sovereignty is the ability to control activities occurring within the sovereign's borders. Choice-of-law rules that apply the law of one jurisdiction to transactions occurring within the borders of another jurisdiction implicate this interest.

son why a state cares about the choice-of-law decision, and not as a term of art associated with governmental interest analysis. Under interest analysis, "state interest" is limited to an interest of the state in applying its own law, and exists only if the purposes underlying that state's law would be furthered by its application. See SCOLES & HAY, supra note 9, § 2.6, at 15-20 (discussing Brainard Currie's governmental interest theory).

15. See Jack L. Goldsmith, Against Cyberanarchy, 65 U. CHI. L. REV. 1199, 1206, 1208 (1998) (noting that "in modern times a transaction can legitimately be regulated by the jurisdiction where the transaction occurs, the jurisdictions where significant effects of the transaction are felt, and the jurisdictions where the parties burdened by the regulation are from").

16. See, e.g., RESTATEMENT (SECOND) CONFLICT OF LAWS, supra note 2, § 188(2)(a)-(d) (listing the place of contracting, the place of negotiation, the place of performance, and the location of the subject matter of the contract, as contacts to be considered in determining the applicable law); id. cmt. e (noting inter alia the "obvious interest" of the state of performance in "the nature of the performance and the party who is to perform" and the "natural interest" of the state in which the subject matter is located in "transactions affecting it"); REIMANN, supra note 1, at 23 (discussing the influence of territorialism on European conflicts rules). Cf. RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 402(1)(a)-(b) (1987) [hereinafter RESTATEMENT FOREIGN RELATIONS LAW] (stating that a state has legislative jurisdiction over "conduct that, wholly or in substantial part, takes place within its territory" and over "the status of persons, or interest in things, present within its territory").

17. See, e.g., RESTATEMENT FOREIGN RELATIONS LAW, supra note 16, § 201 (defining a state as "an entity that has a defined territory and permanent population, under the control of its own government").
2. Enforcement of State Policies

Sovereigns also have an interest in enforcing the policy determinations reflected in their laws.18 This interest is related to the state's territorial interest—because of the basically territorial definition of sovereignty, a sovereign has the strongest claim to enforcing the policy determinations reflected in its laws within its own jurisdiction. The sovereign, however, may have an interest in enforcing its policy determinations outside its geographical borders because of the effect of extraterritorial activities on those policies.19

3. Protection of Citizens and Domiciliaries

Sovereigns also have an interest in protecting their citizens and domiciliaries.20 Membership in a particular polity presumptively carries with it the protection of that sovereign. The actions of nationals of a sovereign can reflect upon the sovereign, and the treatment of an individual by other sovereigns can be viewed as a measure of the respect given to the sovereign of which the individual is a national.21

18. See, e.g., RESTATEMENT (SECOND) CONFLICT OF LAWS, supra note 2, § 6(2)(b)(c) (listing "the relevant policies of the forum" and "the relevant policies of other interested states" as factors relevant to the choice of the applicable rule of law); id. cmt. e ("If the purposes sought to be achieved by a local . . . rule would be furthered by its application to out-of-state facts, this is a weighty reason why such application should be made"); id. cmt. f ("In determining a question of choice of law, the forum should give consideration not only to its own relevant policies . . . but also to the relevant policies of all other interested states . . . . In general, it is fitting that the state whose interests are most deeply affected should have its local law applied.").

19. Cf. RESTATEMENT FOREIGN RELATIONS LAW, supra note 16, § 402(1)(c) (recognizing the effects of extraterritorial behavior within a jurisdiction as a basis for the exercise of legislative jurisdiction).

20. See, e.g., RESTATEMENT (SECOND) CONFLICT OF LAWS, supra note 2, § 188(2)(e) (listing "the domicile, residence, nationality, place of incorporation and place of business of the parties" as contacts to be considered in determining the applicable law); REIMANN, supra note 1, at 21-23 (discussing the influence of domicile and citizenship on European conflicts law).

21. Cf. RESTATEMENT FOREIGN RELATIONS LAW, supra note 16, § 402(2) (recognizing the legislative jurisdiction of a nation to regulate extraterritorial conduct of a national or domiciliary); id. § 402 cmt. g (suggesting that a nation may have power in certain limited situations to regulate certain extraterritorial acts against its citizens).
4. Control of Judicial Resources

Sovereigns also have an interest in controlling the use of their judicial resources. The primary function of the sovereign's judicial system is to enforce and interpret its own laws. Thus, the sovereign has an interest in controlling the extent to which those judicial resources are used to enforce the laws of other jurisdictions.\footnote{22}

As with the various interests of the parties, the interests of jurisdictions may conflict with each other. One jurisdiction's interest in controlling acts within its borders may conflict with another jurisdiction's interest in controlling the effects of extraterritorial activity. Similarly, a jurisdiction's interest in avoiding the use of its judicial resources to enforce foreign law it views as substantively offensive will clash with another jurisdiction's interest in enforcing the policy determinations reflected in its law. It is this clash of various sovereign interests, of course, that puts the "conflict" into conflict of laws. Thus, choice-of-law rules must not only balance jurisdictions' interests against party and systemic interests, but also against each other.

C. Systemic Interests

The system of jurisdictions in which choice-of-law rules operate also has a group of concerns that must be taken into account in structuring those rules. Indeed, one can argue that the primary raison d'être of choice of law is to further these interests. In the absence of any higher authority, the decision to apply a law other than that of the forum is always made by the forum itself. The recognition of other law is thus a recognition of the interests of other jurisdictions, grounded in systemic concerns. For example, the comments to the Second Restatement state:

Probably the most important function of choice-of-law rules is to make the interstate and international systems work well.

\footnote{22. This interest is reflected not only in certain choice-of-law rules, such as public policy exceptions, but in other doctrines, such as forum non conveniens. In the United States, a state's ability to deny access to its courts for adjudication under the laws of other United States jurisdictions is limited by the Full Faith and Credit Clause, see Hughes v. Fetter, 341 U.S. 980 (1951), and the Supremacy Clause, see Testa v. Katt, 330 U.S. 386 (1947).}
Choice-of-law rules, among other things, should seek to further harmonious relations between states and to facilitate commercial intercourse between them. In formulating rules of choice of law, a state should have regard for the needs and policies of other states and of the community of states. Rules of choice of law formulated with regard for such needs and policies are likely to commend themselves to other states and to be adopted by these states. Adoption of the same choice-of-law rules by many states will further the needs of the interstate and international systems and likewise the values of certainty, predictability and uniformity of result.23

Systemic interests include: (1) an interest in certainty and predictability in choice-of-law rules; (2) a need for mutual cooperation in deciding what substantive law should govern particular transactions; (3) mutual respect for the law of other jurisdictions; and, (4) uniform application of choice-of-law rules.

1. Certainty and Predictability

The parties to multi-jurisdictional transactions have an interest in certainty and predictability with regard to the choice-of-law rules applied in order to allow them to plan transactions in reliance on the application of a particular law. Certainty and predictability as to the applicable choice-of-law rules also is an important systemic interest. To the extent that the system as a whole has accepted choice-of-law rules that clearly allocate competence to apply law among the various jurisdictions, conflicts between the various jurisdictions can be avoided.

2. Mutual Respect

Mutual respect is a second concern of the conflicts system as a whole. Different sovereigns within the system are likely to have dealt with the same issues through substantive laws that reflect different approaches and different balancing of relevant interests. Respect for the differing policy decisions of other jurisdictions in deciding which law will apply to which transac-

23. RESTATEMENT (SECOND) CONFLICT OF LAWS, supra note 2, § 6 cmt. d. Section 6 of the Second Restatement lists “the needs of the interstate and international systems” as one of the factors relevant to the choice of applicable law. Id. § 6(2)(a).
tions is an important concern in allowing the jurisdictions within the system to encourage reciprocity and avoid retaliation. Respect for the laws of other jurisdictions encourages allocation of competency to deal with particular issues in a manner acceptable to all interested jurisdictions because that allocation sufficiently takes into account their interests.

3. Mutual Cooperation

Mutual cooperation in the application of choice-of-law rules to determine the substantive law that will apply to a multi-jurisdictional transaction is perhaps the most important systemic concern. At least in the absence of some overarching authority, every sovereign theoretically could apply its own law to every transaction that otherwise came within its jurisdiction. Such parochialism, of course, would be the antithesis of a choice-of-law system, and the retaliatory actions that such a policy would invite from other interested jurisdictions whose concerns were ignored would lead to intense forum-shopping and a balkanization of legal regimes that ultimately would work to the detriment of the interests of both the parties to multi-jurisdictional transactions and the individual jurisdictions. It is the recognition of the need for mutual cooperation in order to avoid these consequences that leads to the development of workable choice-of-law systems.

4. Uniformity of Application

Just as the parties to multi-jurisdictional transactions have a concern for uniform application of choice-of-law rules in order to preserve in fact the certainty and predictability that clear choice-of-law rules offer in theory, the jurisdictions within a choice-of-law system have an interest in uniformity in order to preserve in fact the allocation of substantive law competence represented by a system of choice-of-law rules to which they have agreed. Uniform, good faith application of choice-of-law rules adopted by a group of jurisdictions is the final step in achieving a workable choice-of-law system.24

24. The absence of such a good faith, uniform application of the putatively uniform rules of the First Restatement was a major contribution to its demise as a workable set of rules to govern choice-of-law determinations within the United States.
5. The Nature of the System

The nature and strength of these systemic interests vary with the nature of the system. Among states of the United States, for example, the relative weight placed on the values of mutual respect and cooperation in the development of choice-of-law rules has been shaped by the existence of constitutional restraints on the extent to which one state can impose upon the jurisdiction of another.25 The decision as to the importance of these values in the system has been determined for the members of the system as a matter of constitutional interpretation. Further, because the U.S. Supreme Court has held that the constitutional constraints on a state's ability to apply its own law are quite minimal,26 states within the United States need not give much consideration to these values in developing their choice-of-law rules. Not only do they have an explicit and generous standard as to how far they can go in applying their own law at the expense of other interested jurisdictions, but the only consequence of crossing the line in a particular case is likely to be the overruling of a judicial decision on constitutional grounds.

In contrast, in an international system there is no overarching legal authority that imposes limits on each individual nation's freedom of action in imposing its laws or refusing to recognize the laws of other jurisdictions.27 This lack of

25. See REIMANN, supra note 1, at 30.
26. See, e.g., Allstate Insurance Co. v. Hague, 449 U.S. 302, 312-13 (1981) ("for a State's substantive law to be selected in a constitutionally permissible manner, that State must have a significant contact or significant aggregation of contacts, creating state interests, such that choice of its law is neither arbitrary nor fundamentally unfair") (plurality opinion); Phillips Petroleum Co. v. Shutts, 472 U.S. 797, 821 (1985) (state cannot apply its substantive law to claims with regard to which it has no interest). See generally Shreve, supra note 3, at 271 (discussing the U.S. Supreme Court's refusal to develop constitutional limits on choice of law to protect nonforum state interests and nonforum litigants from parochial state conflicts decisions).
27. See REIMANN, supra note 1, at 32-33. European integration, however, ultimately may provide at least some external limits on the application of choice of law in Europe. For example, the Treaty of Rome contains guarantees of certain fundamental rights and freedoms that might form the basis of restrictions on member countries in applying their choice-of-law rules to disputes involving parties from member states. See id. at 32-33. Similarly, in the area of contract, adoption of the Convention on the Law Applicable to Contractual Obligations, June 19, 1980 O.J. (L 266) 1 [hereinafter Rome Convention], means that the choice-of-law rules regarding contractual obligations now are substantially identical throughout the
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a higher authority means that jurisdictions within an international system have both greater freedom to ignore the interests of other states, and greater incentives to exercise self-restraint in doing so, than do states within the United States. Because jurisdictions in an international conflicts system must make their choice-of-law determinations without the benefit of express legal standards as to the outer bounds of conduct acceptable to the system as a whole, and without the assurance that if they push the limits the repercussion will be minimal, their choice-of-law decisions must involve political calculations about the extent to which they can ignore the interests of other jurisdictions in the system and the likelihood that doing so will lead to retaliation. Thus, the absence of constraints counsels restraint in choice-of-law decisions and "creates a persistent need for cooperation."\(^{28}\)

Similarly, the existence of a common culture within the U.S. choice-of-law system minimizes the diversity of the rules potentially applicable to interstate disputes. As a result, a jurisdiction applying interstate choice-of-law rules has both less reason to avoid the application of the law of another U.S. jurisdiction because of its diversity, and a better argument for applying its own law to the detriment of other interested jurisdictions because the substantive differences between the laws are less obvious.\(^{29}\) On the other hand, the greater diversity of cultures at the international level means that laws are likely to reflect more diverse values, and thus, to present both a stronger temptation to avoid application of foreign law, and bring into prominence the need to respect differing solutions to

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European Union. See REIMANN, supra note 1, at 93.

28. REIMANN, supra note 1, at 34.

29. When constitutional constraints are absent, pushing the limits at one's neighbors' (or its citizen') expense is perilous because it invites retaliation and can cause escalation to which there is no guaranteed end. Western European Countries have long recognized that in such a situation they depend on restraint being exercised by all countries involved, and that partnership is in the best interest of everyone. Id. at 34-35.

28. In this regard, consider Sun Oil, Co. v. Wortman, 486 U.S. 717 (1988), in which the Supreme Court affirmed a forum court's interpretation of another state's law as producing results similar to those its own law would produce, stating "it is not enough that a state court misconstrue the law of another State. Rather . . . that misconception must contradict law of the other State that is clearly established . . . ." Id. at 730-31.
similar issues.30

III. CHOICE-OF-LAW THEORIES AND THE POLICIES THEY REFLECT

The previous discussion focused on the various interests affected by choice-of-law rules. The assumption of that discussion was that the particular choice-of-law rules adopted by a jurisdiction represent a particular balancing of these interests. This section examines some of the more widely-accepted choice-of-law rules in light of that assumption, and discusses the particular balancing of interests that those rules reflect. The discussion focuses on five types of choice-of-law rules: (1) multilateral or jurisdiction-selecting rules; (2) the center of gravity approach; (3) choice of law by contract; (4) mandatory rules; and, (5) public policy exceptions. There obviously are many other possible choice-of-law rules.31 These particular rules were selected for analysis because of their wide acceptance not only in the United States, but in the international context, and, particularly, in Western Europe.

30. See Reimann, supra note 1, at 27.

In the unity of the domestic [U.S.] legal culture, there is seldom a good reason to invoke [public policy to avoid application of offensive substantive law of another U.S. jurisdiction], while in the diversity of rules and values on the international level, the escape devise constantly beckons. Id. On the other hand, Professor Reimann states that, in light of the greater temptation at the international level to avoid the application of foreign law, European scholars and courts “have developed sophisticated rules about the application and the limits of the public policy exception,” the choice-of-law device that would allow a forum to avoid the application of the substantive law otherwise designated by the forum's choice-of-law rules on the basis that it is substantively offensive to the forum. Id.

31. Conspicuously absent from this discussion, for example, is Professor Brainard Currie’s governmental interest analysis approach to choice of law, and the variations on that doctrine developed by other conflicts scholars. For a summary of these doctrines, see Scoles & Hay, supra note 9, §§ 2.6, 2.8, at 15-20, 23-26. While the “interest analysis” idea has its roots in earlier European conflicts scholarship, see id. § 2.6, at 15, and Professor Currie’s ideas have had a considerable influence on the development of U.S. choice-of-law theory in the latter half of this century, this analysis does not appear to be at the forefront of current choice-of-law theory widely adopted outside of the United States.
A. Multilateralism or Jurisdiction-Selecting Rules

Multilateralism focuses on selecting one jurisdiction within a community of jurisdictions that will have competence to decide a particular type of issue in all situations. Under this approach, broad categories of legal transactions are linked to a given territory by connecting factors. In the United States, the First Restatement of the Law of Conflict of Laws is an example of this approach. The First Restatement provides, for example, that the law of the place of contracting determines issues relating to the validity of the contract (such as capacity to contract, formalities, and assent) while the law of the place of performance governs issues relating to performance (such as manner of performance, excuse for nonperformance, and sufficiency of performance). Multilateralism was the dominant choice-of-law approach in the United States during the nineteenth century and the first half of the twentieth century, and many of the jurisdiction-selecting rules developed under that approach continue to influence U.S. choice of law. Multilateralism also has been the dominant type of choice-of-law methodology in Europe until recently. In the area of contracts, however, that approach has given way to a center of gravity approach in the European Union under the Rome Convention on the Law Applicable to Contractual Obligations.

A primary group of interests served by multilateralism are the interests of the system as a whole. The goal of this approach is to have a conflicts law that is uniformly defined and administered throughout a community of jurisdictions. To that end, the multilateral approach divvies up the competence to decide specific issues among the jurisdictions, and directs

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32. RESTATEMENT OF THE LAW OF CONFLICT OF LAWS § 332 (1934).
33. Id. § 332.
34. Id. § 358.
35. See Shreve, supra note 3, at 283.
36. See SCOLES & HAY, supra note 9, § 2.5, at 15.
37. See REIMANN, supra note 1, at 23-24.
38. Rome Convention, supra note 27.
39. See Shreve, supra note 3, at 282-23:
Multilateralism strives for uniform results in choice of law. To the multilateralist judge, the possible sources of chosen law are sovereigns, or jurisdictions, that make up a kind of legal community . . . . Ideally, each member of this community of jurisdictions would use the common conflicts rule, and uniform choice-of-law results would exist in fact.

Id.
each jurisdiction to apply the law of the jurisdiction that has been chosen as the one with competence over that issue. It provides clear rules to be applied in a neutral fashion, which accords foreign law the same importance as the forum’s law, thereby furthering the interests of certainty and predictability, mutual respect, and cooperation.

Among the interests of the parties to the transaction, multilateralism favors the interests in certainty and predictability and in uniform application. Because it provides clear rules as to the law that will apply, the parties can plan their transactions with a fairly high degree of certainty as to governing law. The clarity of the rules also reduces the parties’ costs in determining applicable law. Further, clear rules make it more likely that a court will apply the rules consistently to reach the same result across a number of cases, and, to the extent multilateralism’s emphasis on systemic interests has lead to uniform acceptance of choice-of-law rules among jurisdictions, they also make uniform application among potential fora more likely.

On the other hand, the emphasis on certainty and predictability means that the parties’ expectations and fairness concerns are given less weight. The rigid application of clear rules needed to obtain certainty and predictability and uniform application means that fairness and party expectations cannot be evaluated in individual cases. Instead, these interests are taken into account up-front when the choice-of-law rules are established through the connecting factors that dictate application of a particular law. Because party expectations generally coincide with territorial or domiciliary allocations, it is assumed that the law dictated by the choice-of-law rules normally will coincide with the expectations of the parties. Similarly, application of that law normally will satisfy fairness concerns because the parties have engaged in activity that is deemed the type of contact with a jurisdiction that makes it

40. See REIMANN, supra note 1, at 13 (noting that the European preference for black letter rules is based on the underlying assumption “that if a rule incorporates the appropriate policies and interests and is well-drafted, its blackletter character will not lead to unjust results, except in extreme, and thus rare, cases”).

41. See id. at 20-24 (noting that territorial criteria serve a notice function in the international context because people normally understand that crossing a national border “entails a change not only of language and currency but also of law”).
fair for the jurisdiction's law to apply.\textsuperscript{42} The parties' interest in choosing a substantively favorable law is furthered by a multilateral rule only to the extent that the clarity of that rule gives the parties the ability to structure their transaction so that the relevant connecting factor occurs in the jurisdiction whose law they prefer.

The concerns of interested jurisdictions are compromised in the multilateral approach to the extent that jurisdictions must give up the ability to apply their own law to some situations that implicate their policy choices and that affect their nationals in the interest of the system as a whole. In return, however, the rules allocate to each jurisdiction exclusive competence over certain events occurring within their jurisdiction or affecting their domiciliaries by making these types of contacts the basis for the choice-of-law rules.

\textbf{B. Center of Gravity Approach}

Instead of establishing clear choice-of-law rules that dictate \textit{a priori} the law that will apply to a particular category of transactions based on the occurrence of a particular event or the location of one of the parties within the chosen jurisdiction, the center of gravity approach directs the forum to apply the law of the jurisdiction that has the closest connection with the particular transaction or, in some cases, the particular issue before it. This is the approach taken by the \textit{Restatement (Second) of the Law of Conflict of Laws}, which states that the applicable law is that of the state with "the most significant relationship to the transaction and the parties,"\textsuperscript{43} as well as by the Rome Convention, which states that "the contract shall be governed by the law of the country with which it is most closely connected."\textsuperscript{44} Guidance in determining which jurisdiction has the closest connection is provided through a list of contacts to be taken into account in making the determination and/or a

\begin{footnotesize}
\begin{enumerate}
  \item Dissatisfaction with this type of rough justice was one of the motivations for the abandonment of multilateral rules in the United States in favor of other more \textit{ad hoc} approaches. See \textsc{Scoles} \& \textsc{Hay}, \textit{ supra} note 9, \textsection 2.6, at 15 ("Dissatisfaction with the fixed and thus mechanical—but also predictable—rules of the First Restatement resulted in a number of new suggestions and counter-suggests, a 'revolution' in American conflicts law.").
  \item \textit{Restatement (Second) Conflict of Laws}, \textit{ supra} note 2, \textsection 188(1).
  \item Rome Convention, \textit{ supra} note 27, art. 4(1).
\end{enumerate}
\end{footnotesize}
series of presumptions as to applicable law based on a specific contact with a jurisdiction.\footnote{45}

The balance of interests under this type of choice-of-law rule is to a large extent the mirror-image of the balance of those interests under a multilateral approach. The interests of the system in certainty and predictability, uniform application, and mutual respect and cooperation are downplayed to some extent in favor of the interests of individual jurisdictions in applying their law when their policies are implicated and when their nationals are involved. The flexible rules of this approach allow the forum on an ad hoc basis to fine-tune the relationship between the interested jurisdictions and the particular

\footnote{45. Section 6 of the Second Restatement sets out a list of general principles to guide the forum’s determination, while section 188 lists contacts to be taken into account in applying those principles to contracts. The Restatement also indicates the jurisdiction whose law usually will be applied based on that jurisdiction’s connections. For instance, section 188(3) provides that when the place of negotiating the contract and the place of performance are in the same state, the law of that state usually will apply. Statements as to the jurisdiction whose law usually will apply with regard to certain types of contracts are given in the sections following section 188, but subject to finding that under the section 6 principles another state has a more significant relationship.

The Rome Convention is “more ‘state selective’ and less ‘approach’-oriented, than the Restatement.” SCOLES & HAY, supra note 9, § 2.18, at 47. It sets out rebuttable presumptions as to the country that has the closest connection. For example, Article 4(2) of the Rome Convention provides that:

\"It shall be presumed that the contract is most closely connected with the country where the party who is to effect the performance which is characteristic of the contract has, at the time of conclusion of the contract, his habitual residence, or in the case of a body corporate or unincorporate, its central administration.\"

Rome Convention, supra note 27, art. 4(2).

The “characteristic performance” is

\"The performance for which the payment [of money under the contract] is due, i.e. depending on the type of contract, the delivery of goods, the granting of the right to make use of an item of property, the provision of a service, transport, insurance, banking operations, security, etc., which usually constitutes the centre of gravity and the socio-economic function of the contractual transaction.\"


The Rome Convention also applies a bright line rule with regard to certain consumer contracts, providing that those contracts are governed by “the law of the country in which the consumer has his habitual residence,” Rome Convention, supra note 27, art. 5(3), and a presumption in favor of the law of the jurisdiction in which an employee works to govern individual employment contracts, id. art. 6(2). The Rome Convention thus limits the discretion of the forum in choosing the applicable law to a significantly greater extent than does the Second Restatement.
transaction in determining the applicable law. Under this approach, systemic concerns are taken into account as factors in the forum's determination of the closest connection, and through presumptions as to the applicable law. Similarly, the parties' interests in certainty and predictability, the ability to structure their transaction in light of substantively favorable law, and in uniformity of result are downplayed to give the forum the flexibility to focus on party expectations and fairness in individual cases.

C. Contractual Choice of Law

Another approach to choice of law is to allow the parties to select the law that will govern their relationship as a term of

46. The Second Restatement, for example, lists among the factors relevant to the choice-of-law decision “the needs of the interstate and international systems” and “certainty, predictability and uniformity of result.” RESTATEMENT (SECOND) CONFLICT OF LAW, supra note 2, § 6(2)(a)(f). In addition, the specific connecting factors draw on the former rules of the First Restatement multilateralist approach, transforming those rules into part of an approach “by making a single traditional connecting factor of the prior system . . . one among several to be considered and by providing the concept of the 'most significant relationship' as a guiding principle.” SCOLES & HAY, supra note 9, § 2.14, at 36.

47. Early U.S. cases rejecting the multilateralist approach of the First Restatement in favor of a center of gravity approach expressly recognized this balancing of interests. See, e.g., Fricke v. Isbrandtzen Co., 151 F. Supp. 465, 467 (S.D.N.Y. 1957) ("The law of the jurisdiction having the closest relation to the contract is selected because, it is felt, the parties contracted probably with that law (if any law) in mind, and that jurisdiction would probably have the greatest interest in defining the rights of the contracting parties."); Boston Law Book Co. v. Hathorn, 119 Vt. 416, 423 (1956) (when the court has identified the center of gravity of the contract, or of the aspect of the contract before the court, the court has "identified the jurisdiction with which the matter at hand is predominantly or most intimately concerned, [and] they conclude that this is the proper law of the contract which the parties presumably had in view at the time of contracting"); Auten v. Auten, 308 N.Y. 155 (1954).

Although this "grouping of contacts" theory may, perhaps, afford less certainty and predictability than the rigid general rules . . . the merit of its approach is that it gives to the place "having the most interest in the problem" paramount control over the legal issues arising out of a particular factual context, thus allowing the forum to apply the policy of the jurisdiction "most intimately concerned with the outcome of the particular litigation . . . ." Moreover, by stressing the significant contacts, it enables the court, not only to reflect the relative interests of the several jurisdictions involved . . . but also to give effect to the probable intention of the parties and consideration to "whether one rule or the other produces the best practical result."

Id. at 161 (citations omitted).
their contract. Choice-of-law rules that recognize the ability of the parties to choose for themselves the law that will apply to their transaction value most highly the parties' planning-related interests, and, in particular, their interest in certainty and predictability.\footnote{See, e.g., Restatement (Second) Conflict of Laws, supra note 2, § 187 cmt. e (stating that certainty and predictability are most likely to be secured by letting the parties choose the law to govern their contract).} Contractual choice of law also values the parties' concern that they be able to pick a substantively favorable law to govern their transaction.\footnote{The extent to which this concern is valued by a particular contractual choice-of-law provision is reflected in whether the parties' choices are limited to a choice among interested jurisdictions, or the parties also are allowed to choose the law of an unrelated jurisdiction.} Finally, contractual choice-of-law limits, although it does not remove, the parties' concern about uniformity of application. Because the choice-of-law decision is made by the parties themselves rather than by the forum, the only uniformity concern the parties will have is the extent to which the contractual choice will be recognized within a given forum, and uniformly by all potential fora.

The extent to which the parties' expectation and fairness interests are valued depends upon the nature of the parties or the transaction. If the parties are repeat players or the transaction is sufficiently large to make it cost effective to take applicable law into consideration, then party expectations and fairness concerns are likely to be satisfied by allowing the parties to choose the applicable law. To the extent that it is not efficient for one of the parties to take choice of law into consideration in contracting, then contractual choice-of-law provisions can devalue these interests.

Contractual choice of law downplays the concerns of interested jurisdictions as well as systemic concerns. Because the choice-of-law decision is removed from the forum and placed in the hands of the contracting parties, the choice may be made without any consideration of the interests of a jurisdiction in controlling activities within its borders, enforcing its policy determinations, or protecting its citizens. Similarly, because the forum does not select the jurisdiction whose substantive law will be applied, systemic concerns related to the application of choice-of-law rules within a choice-of-law system are not addressed.

As with any decision concerning the applicable substantive
law, however, the decision as to whether the substantive law
chosen by the parties will be applied ultimately rests with the
forum. A primary rationale for downplaying the concerns of
interested jurisdictions and the choice-of-law system by enforc-
ing the parties’ contractual choice is that contract law tradi-
tionally has been recognized as a system of private ordering
that normally has an impact only on the parties to the con-
tract. Therefore, the sovereign’s interests normally are not
significantly impacted by the private contractual arrangements
of individuals. As long as the sovereign is satisfied that the
interests of the public in general are not significantly implicat-
ed, and that the parties to the contract do not need protection,
the principal of party autonomy prevails. The extent to which
this rationale holds true, however, obviously depends upon the
nature of the particular contract and the parties to it. Al-
though the average contract to sell widgets may have little
impact on the public interests that are the concern of sovereigns,
the sovereign may view the proverbial contract to sell babies much differently.

The general principle that parties should be able to choose
the law applicable to their contract in certain circumstances is
well-accepted. The issue that causes controversy is the ex-
tent to which that choice should be limited in order to give
weight to other interests, particularly those of interested jurisdic-
tions, and the expectation and fairness interests of the par-
ties. In general, existing contractual choice-of-law provisions do
give weight to these interests through restrictions, although
the nature of the restrictions varies. For example, U.C.C. sec-
tion 1-105 limits the parties’ ability to choose the applicable
law to situations in which the transaction bears a reasonable
relation to more than one state, and to a choice among the

50. See, e.g., RESTATEMENT (SECOND) CONFLICT OF LAWS, supra note 2, § 187
cmt. e (“Giving parties this power of choice is . . . consistent with the fact that, in
contrast to other areas of the law, persons are free within broad limits to deter-
mine the nature of their contractual obligations.”).

51. See, e.g., id. § 187 (allowing the parties to choose the law that will govern
their contractual rights and duties, subject to certain restrictions); Rome Conven-
tion, supra note 27, art. 3 (same); U.C.C. § 1-105 (same); Report on the Conven-
tion, supra note 45, at 15 (“The rule stated in Article 3(1) under which the con-
tract is governed by the law chosen by the parties simply reaffirms a rule currently
embodied in private international law of all the Member States of the Commu-
nity and of most other countries.”).
The substantive laws of jurisdictions with a reasonable relationship to the transaction. This type of restriction gives greater weight to the interests of interested jurisdictions, and, to the extent that relationship to a jurisdiction also coincides with the expectations of the parties and with fairness considerations, gives greater effect to those interests as well. On the other hand, the Rome Convention does not require that the law chosen by the parties be related to their transaction, but does make the parties' contractual choice subject to certain mandatory rules, including those of a country that is the sole country with a connection to the transaction, those of a consumer's residence in certain consumer transactions, those of the country in which an employee habitually carries out his work, and those of the forum. Although different in nature from the limits on contractual choice in U.C.C. section 1-105, the Rome Convention limits also are attempts to take into account the concerns of interested jurisdictions and the expectation and fairness interests of the parties.

D. Public Policy and Mandatory Rules

Choice-of-law provisions providing the forum with a rationale for applying a law other than that to which other choice-of-law rules would lead it also are a common feature of choice-of-law systems. A public policy exception allows the forum to refuse to apply the law chosen because that law is substan-

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53. Compare Second Restatement section 187, which allows the parties to choose the law of any jurisdiction to govern their contract with regard to matters that could have been resolved by a contractual provision, but requires that the law chosen have a substantial relationship to the parties or the transaction or that there be some other reasonable basis for the parties' choice with regard to issues the parties could not have resolved by contract.
54. Rome Convention, supra note 27, art. 3(3).
55. Id. art. 5(2).
56. Id. art. 6(1).
57. Id. art. 7(2). Article 7 also authorizes the judge to apply the mandatory rules of another country with which the situation has a close connection. Id. art 7(1). See also U.C.C. § 1-301(a)(b)(c) (ALI Council Draft, Nov. 22, 1999) (parties may pick the applicable law "whether or not the transaction bears a relation to the State or country designated," but choice is significantly limited when one of the parties is a consumer, and is unenforceable when the law designated "is contrary to a fundamental policy of the State or country whose law would otherwise govern").
Mandatory rules are the mirror-image of the public policy exception—they are substantive rules that are considered so imperative that they will be applied regardless of whether they are chosen by the general conflicts rule. 69

The public policy exception can be applied only to serve the interests of the forum, or it can be applied to serve the interests of other jurisdictions, as well as the systemic values of mutual respect and cooperation. When the relevant public policy is only that of the forum, 60 then the only sovereign interest clearly served is the interest of the forum in controlling the use of its courts for the adjudication of foreign law. 61 By refusing to apply the foreign law chosen when that law is substantively offensive, the forum is placing a limit on the extent to which comity requires that it expend its resources to enforce the law of another jurisdiction. To the extent the public policy exception is applied in this fashion, it devalues the systemic interests in certainty and predictability, and mutual respect and cooperation. Depending on the circumstances in which it is applied, it may also devalue the interests of other jurisdictions in controlling actions within their borders, enforcing their policy determinations, and protecting their nationals. If, on the other hand, the forum also refuses to apply a law contrary to the public policy of another interested jurisdiction, 62 systemic

58. See REIMANN, supra note 1, at 28.
59. See id. Cf. Johan A. Erauw, International Advancement of Consumer Interests Through Conflicts Rules, in INTERNATIONAL CONTRACTS AND CONFLICTS OF LAWS: A COLLECTION OF ESSAYS 70, 75-76 (Peter Šartević ed. 1990) (the public policy exception denies application of chosen law based on “notions of minimum decency or protection not acknowledged by the particular foreign law,” while mandatory rules, instead of being a negative or restrictive control, directly impose themselves by defining their territorial sphere of application as including transnational cases).
60. It is generally recognized that a forum may always refuse to enforce a foreign law that is contrary to its own public policy. See e.g., Rome Convention, supra note 27, art. 16 (“The application of a rule of the law of any country specified by this Convention may be refused only if such application is manifestly incompatible with the public policy . . . of the forum.”); RESTATEMENT (SECOND) CONFLICT OF LAWS, supra note 2, § 90 (“No action will be entertained on a foreign cause of action the enforcement of which is contrary to the strong public policy of the forum.”); SCOLES & HAY, supra note 9, § 3.15, at 72 (“Under the traditional approach to choice of law, the forum’s territorially-oriented rule might refer to a law, the enforcement of which would be offensive to the public policy of the forum.”).
61. Of course, if the forum then proceeds by applying its own law, other of its interests ultimately may be served.
62. See, e.g. RESTATEMENT (SECOND) CONFLICT OF LAWS, supra note 2, §
concerns of mutual respect and cooperation, as well as sovereign concerns, are furthered. The public policy exception thus can be used either as a tool of conflict or a means of encouraging reciprocity.

Similarly, a forum can apply only its own mandatory rules or can also apply the mandatory rules of another interested jurisdiction. For example, while the Rome Convention provides for application of the forum's mandatory rules, it also authorizes the forum to give effect "to the mandatory rules of the law of another country with which the situation has a close connection, if and in so far as, under the law of the latter country, those rules must be applied whatever the law applicable to the contract." When the mandatory rules doctrine is limited to rules of the forum, then the forum's sovereign interest in furthering its own policies is highly valued to the detriment of the interests of other sovereigns and systemic concerns of mutual respect and cooperation. If the forum also takes into account the mandatory rules of another interested jurisdiction, then these interests are given more weight.

Because the public policy exception and the application of mandatory rules result in the application of law other than that selected by the normal choice-of-law rules, including the law chosen by the parties in their contract, these principles

187(2)(b) (forum will not apply the law chosen by the parties if application of that law "would be contrary to a fundamental policy of state which has a materially greater interest than the chosen state in the determination of the particular issue" and would be the state whose law would apply in the absence of the parties' choice of the governing law); U.C.C. § 1-301(c) (ALI Council Draft, Nov. 22, 1999) (parties' choice of governing law is unenforceable when the law designated "is contrary to a fundamental policy of the State or country whose law would otherwise govern").

63. Rome Convention, supra note 27, art 7. Article 7 can lead to consideration of the mandatory rules of three jurisdictions: (1) the forum; (2) the jurisdiction chosen by the parties; and, (3) the law of a third State closely connected with the contract. See Erik Jayme, The Rome Convention on the Law Applicable to Contractual Obligations (1980), in INTERNATIONAL CONTRACTS AND CONFLICTS OF LAWS, supra note 59, at 36, 47. The Rome Convention also requires application of the protective mandatory rules of the country of a consumer's residence in certain consumer contracts, Rome Convention, supra note 27, art. 5(2), and of the country in which an employee habitually carries out his work, id. art 6(1), even though the parties have chosen the law of another country in their contract.

64. See, e.g., Goldsmith, supra note 15, at 1199, 1209-10.

The possibilities for private legal ordering are not limitless. Every nation has mandatory laws that govern particular transactions or relationships regardless of the wishes of the parties. The primary justifications for
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diminish the parties’ planning-related interests in certainty and predictability and the ability to chose favorable law. Depending on the way in which these rules are used, they also can devalue the parties’ expectation and fairness interests, and their interest in uniform application. This section has attempted to analyze the different choice-of-law rules in isolation from each other, in order to highlight the interests that each primarily serves and devalues. As a practical matter, however, most modern choice-of-law regimes are likely to contain features of each of these rules in order to effectuate a particular balancing of the relevant interests discussed in Part II. Thus, for instance, although center of gravity approaches abandon the use of bright line rules as a way of selecting *a priori* the law that will apply, those approaches may be combined with some multilateral rules. Similarly, center of gravity approaches often are combined with provisions authorizing contractual choice-of-law in order to compensate for the lack of emphasis on certainty and predictability concerns in the center of gravity approach itself. Further, as discussed above, contractual choice-of-law provisions usually are coupled with limitations, such as those based on public policy and mandatory rules, in order to give more weight to the interests of interested jurisdictions and to party expectation and fairness concerns.

IV. CHARACTERISTICS OF SOFTWARE LICENSING THAT MIGHT AFFECT CHOICE-OF-LAW RULES

This section considers whether there are characteristics of software licensing that should be considered in coming up with the appropriate balance of interests in this area. The section

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such laws are paternalism and protection of third parties . . . . Unlike conflicts of default laws, conflicts of mandatory laws cannot be resolved easily by private contract.

*Id.*

65. See, e.g., Rome Convention, *supra* note 27, art. 5(3) (providing that the law of the consumer's residence, rather than the law selected through application of the "most closely connected" test, applies with regard to certain consumer transactions).

66. See *Scoles & Hay, supra* note 9, § 2.14, at 36 (noting that "[a] corollary of the 'most significant relationship' test is that the parties, by their own choice, should be able to give their relationship a center . . . [by] stipulat[ing] the applicable law").
discusses two characteristics of these transactions that might influence choice-of-law rules: (1) the method of contracting, and (2) the nature of the subject matter of the contract.

A. The Method of Contracting

Internet activity has become the focus of many recent discussions about the appropriate rules to apply in multi-jurisdictional transactions, including the appropriate choice-of-law rules. The Internet "allows remote parties to enter and perform contracts spanning multiple jurisdictions and operating in circumstances that do not depend on physical location of either party or the information." The relatively low cost of widespread dissemination of information over the Internet also enables small entities to engage in international business transactions to an extent that would not be possible through other forms of distribution.

The exponential increase in commerce flowing across borders made possible by the Internet clearly is a phenomenon that any system of choice-of-law rules in the area of contracts must consider. This phenomenon, for instance, suggests the increasing importance of systemic concerns in fashioning and applying choice-of-law rules, as increasingly the transactions those rules must address will cross national borders. Indeed, the systemic problems created by the number of jurisdictions that may claim an interest in regulating these transactions may be the primary concern that must be taken into account in fashioning choice-of-law rules to deal with the Internet.

The use of Internet contracting, however, is not a factor


68. UCITA § 109 cmt. 2 (2000).

69. See Raymond T. Nimmer, UCITA: Modern Contract Law for a Modern Information Economy, in PATENTS, COPYRIGHTS, TRADEMARKS, AND LITERARY PROPERTY COURSE HANDBOOK SERIES 230 (1999) ("The ability of small entities to engage in significant information commerce has geometrically expanded with the advent of the Internet").
that distinguishes software from other commodities, and thus is not a factor that necessarily would cause the choice-of-law rules for software licenses to be different from the rules for other contracts. Internet marketing is a phenomenon that affects contracting with regard to all commodities, not just software. Contracts for goods and services as well as contracts for software are concluded on the Internet.\textsuperscript{70} On the other hand, software, as well as goods and services, is also sold at physical locations and over the telephone. Thus, while the new contracting mode made available by the Internet certainly will need to be considered in developing and applying choice-of-law rules,\textsuperscript{71} it does not provide a significant basis for distinguishing between the choice-of-law rules for software and those that apply to contracts for other types of commodities.

There is, however, a distributional difference between licensing software over the Internet and the sale of goods and services there. Unlike tangible goods and services, which must be delivered to the buyer after the contract is entered, software, as an intangible, can be delivered online.\textsuperscript{72} The fact that intellectual property is an intangible means that certain connecting factors, such as location of the subject matter of the contract, or place of performance of the contract, will not be particularly meaningful in choosing the jurisdiction whose law should apply to intellectual property contracts.\textsuperscript{73} The intangible nature of the subject matter of a contract, however, has

\begin{itemize}
\item \textsuperscript{70} During the 1999 Christmas season, Internet shopping increased by 300\% over the previous year, to an estimated 12 billion dollars. The top seller was books—clearly information, but not software—the books were not downloaded on disk, but shipped UPS. Another top seller was garden tools. \textit{NBC Nightly News}, (NBC television broadcast, Jan. 9, 2000).
\item \textsuperscript{71} Indeed, some commentators have suggested that certain characteristics of the Internet should cause sovereigns to refrain from regulation of Internet transactions in favor of self-regulation by Internet users and providers. See, \textit{e.g.}, Johnson & Post, \textit{supra} note 67, at 1367. Others argue that Internet transactions “are not significantly less resistant to the tools of conflict of laws, than other transnational transactions.” Goldsmith, \textit{supra} note 15, at 1199, 1201. For further discussion of this issue, see \textit{infra} Part V.
\item \textsuperscript{72} This “delivery” can take the form of actual downloading of a copy of the software product, or merely the provision of access to the software for its use online.
\item \textsuperscript{73} \textit{See} \textsc{Eugen Ulmer, Intellectual Property Rights and the Conflict of Laws} 7 (1976) (Intellectual property is “by its nature as an intangible object, not spatially confined;” therefore, “in contrast to rights to corporeal property, it is impossible to use the criterion of situation in a given place”).
\end{itemize}
never prevented a choice-of-law regime from developing appropriate factors to connect that intangible to a particular jurisdiction. Thus, the intangible nature of intellectual property does not distinguish it from other types of intangible property for which choice-of-law rules have been developed. Therefore, the method of delivery of software also does not seem a particularly significant factor in differentiating the choice-of-law rules that would apply to software.

B. The Subject Matter of the Contract

Although the method of contracting does not provide a relevant basis for distinguishing software licenses from other contracts for choice-of-law purposes, the nature of the “product” involved in licensing does. Intellectual property rights are purely the creatures of the law, whose nature and extent are determined by a jurisdiction's balance between “protecting property interests in information to encourage its creation and the importance of a rich public domain upon which most innovation ultimately depends.” The balance struck between these competing interests is a matter of fundamental public concern, and different jurisdictions strike the balance differently, so that the nature and extent of intellectual property rights varies from jurisdiction to jurisdiction.

The importance of intellectual property to each sovereign is reflected in the territorial nature of the choice-of-law rules that have developed with regard to enforcement actions for copyright infringement. For example, the Berne Convention, the primary multilateral convention protecting copyright, provides that, except for the minimum standards established by the Berne Convention itself, its signatories have no obligation to enforce any copyright law other than their own. Instead, their obligation is simply to grant to authors from other countries the same copyright protection that they give to their own nationals. The Berne Convention thus establishes a choice-

74. See, e.g., U.C.C. § 9-103(3) (1995) (law of jurisdiction in which debtor is located governs perfection and effect of perfection or nonperfection of security interest in accounts and general intangibles); SCOLES & HAY, supra note 9, § 19.27, at 787-88 (discussing transfer of intangible claims).
75. UCITA § 105 cmt. 3 (2000).
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of-law rule for copyright infringement actions that the applicable copyright law is the nation in which the infringement occurs, not the law of the state of which the author is a national, or in which the work was first published. The ter-

29, 1914 (Berne), revised June 2, 1948 (Brussels), July 14, 1967 (Stockholm), last revised at the Paris Universal Copyright Convention, July 24, 1971 (Paris), 25 U.S.T. 1341, 828 U.N.T.S. 221. Article II of the Convention reads as follows:

1. Published works of nationals of any Contracting State and works first published in that State shall enjoy in each other Contracting State the same protection as that other State accords to works of its nationals first published in its own territory, as well as the protection specially granted by this Convention.

2. Unpublished works of nationals of each Contracting State shall enjoy in each other Contracting State the same protection as that other State accords to unpublished works of its own nationals, as well as the protection specially granted by this Convention. Id. art. 2(1)(2). See also 4 MELVILLE B. NIMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 17.05 (1972 & Supp. 1999) (discussing the principle of national treatment) [hereinafter NIMMER ON COPYRIGHT].

77. See NIMER ON COPYRIGHT, supra note 76, § 17.05; accord, S.M. STEWART, INTERNATIONAL COPYRIGHT AND NEIGHBORING RIGHTS § 3.17 (2d ed. 1989) (“The principle of national treatment also means that both the question of whether the right exists and the question of the scope of the right are to be answered in accordance with the law of the country where the protection is claimed.”).

Although U.S. courts often have applied the national treatment principle to all issues in a copyright infringement action, e.g., Dae Han Video Productions, Inc. v. Kuk Dong Oriental Food, Inc., 19 U.S.P.Q.2d 1294, 1298 (D. Md. 1990) (rejecting argument that Korean copyright law was relevant to determination of whether foreign works were works for hire in U.S. infringement action), the Second Circuit has held that the law of the nation in which the infringement occurs only applies to issues regarding the scope of substantive copyright protection, while the law of the nation with the most significant relationship to the work governs issues related to ownership of the copyrighted work. ITAR-TASS Russian News Agency v. Russian Kurier, Inc., 153 F.3d 82, 90-91 (2d Cir. 1998). Similarly, Professor Jane C. Ginsburg has argued for a choice-of-law rule that would apply the law of the country of origin, rather than the law of the protecting country, to issues relating to copyright ownership. Jane C. Ginsburg, Ownership of Electronic Rights and the Private International Law of Copyright, 22 COLUM.-VLA J.L. & ARTS 165, 166-67 (1998). Professor Ginsburg asserts that applying the law of the country of origin would further the Berne Convention goal of promoting international dissemination of works of authorship by removing the disruption to international commerce that application of multiple laws to copyright ownership could cause, would ensure “that the work will not change owners by operation of law each time the work crosses an international boundary,” and would allow “licensees in all countries [to] know that they have acquired rights from their owner,” thus reinforcing “the security of international contracts.” Id. at 169-70. Professor Ginsburg, however, believes that the initial choice of law of the country of origin should not be absolute. The law of the country of origin will not apply when under the law of the protecting country “the result of applying the foreign law would conflict with strongly held local public policy” reflected in the protecting country’s copyright laws. Id. at 173-74. Thus, “while the law of the source country governs what the author may
The territorial—and territorially limited—nature of intellectual property rights reflected in the Berne Convention principle of national treatment also is reflected in U.S. court decisions holding that the U.S. Copyright Act has no extraterritorial application, and in the general refusal by U.S. courts to entertain suits for copyright infringement based on the copyright laws of other countries.

The choice-of-law rules established by the Berne Convention with regard to copyright protection suggest two important features about intellectual property that are likely to affect the choice-of-law rules applied to govern intellectual property contracts. First, the principle of national treatment underlines the fact that, as a practical matter, there is no unitary concept of “intellectual property rights”—except to the extent the Berne Convention or other international agreements establish uniform minimum standards on their signatories, intellectual property is a bundle of legal rights, the nature and extent of which changes as one moves from jurisdiction to jurisdiction. Thus, the “commodity” involved in intellectual property licensing is not only an intangible, but an intangible that has no fixed content on an international scale.

Second, the strictly territorial nature of the choice-of-law rule embedded in the national treatment principle underlines the importance to each jurisdiction of the public policy embodied in that jurisdiction’s particular balancing of the interests in innovation and free access to define the content of intellectual property rights within its borders. The national treatment principle seems to reflect a policy that the interest of various jurisdictions in copyright is so important that no jurisdiction grant, the law of the host country may also determine what the grantee may receive in that jurisdiction.” Id. at 173.

78. See, e.g., Allarcom Pay Television, Ltd. v. General Instrument Corp., 69 F.3d 381, 387 (9th Cir. 1995) (“federal copyright law does not apply to extraterritorial acts of infringement”); accord, Nimmer on Copyright, supra note 76, § 17.02.

79. See Nimmer on Copyright, supra note 76, § 17.03. The specific rationale for the refusal to entertain an action under foreign copyright laws has varied, but often is based on the doctrine of forum non conveniens. See id. Some commentators have suggested that copyright infringement actions should not be viewed as transitory causes of action. See id. But see Jane C. Ginsburg, supra note 67, at 153 (arguing that copyright infringement is a transitory cause of action, and thus that a U.S. court should entertain an action for foreign infringements when U.S. infringements also have occurred in the interest of efficiency).
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should be able to impose the particular balance reflected in its copyright laws on another jurisdiction. Under the principle of national treatment, no jurisdiction is obligated to enforce the policy of another; and, concomitantly, no jurisdiction is placed in the position of having the content of its policy subjected to the interpretation of another jurisdiction's courts.

These two characteristics of the “product” involved in intellectual property contracts—the territorially-based definition of its content, and the strong public policy reflected in that definition—inevitably will affect the types of issues that choice-of-law rules designed to deal with the contractual aspects of intellectual property must address. In particular, they suggest that contract choice-of-law rules in this area will have to deal on a regular basis with two issues that arise relatively rarely in most commercial contracts—issues of characterization and issues of strong public policy.

1. Characterization Issues

The territorial treatment of copyright for purposes of protection and enforcement points to the inevitability as well as the significance of characterization of issues in determining the applicable choice-of-law rules in this area. Obviously, when an issue before the court is characterized as one dealing with enforcement of copyright protections, rather than a question of interpretation of contract rights, the principle of national treatment applies, not the contractual choice-of-law rules, whatever they may be. Even when contract interpretation clearly is involved, however, the purely legal and territorial nature of intellectual property rights suggests that if the interpretive issue relates to the nature and scope of the intellectual property rights of the licensor, then the law of the jurisdiction creating the rights, rather than the law selected by the contract choice-of-law rules, should apply. As Professor Eugen Ulmer has stated:

The principle of territoriality which prevails in copyright does

not mean that copyright agreements as a whole are to be judged according to the law of the protecting country. Instead, ... it is to be applied to given aspects of the agreements. The questions involved are those which—like the question of assignability—concern the legal nature of the right as imprinted by the law of the protecting country, as well as questions which—like that of the effect as against third persons—are of importance for legal transactions in the protecting country. The application of the law of the protecting country to these questions is compulsory, whereas the law of the contract may be determined by the parties' choice of law.\textsuperscript{81}

Thus, to give a very obvious example, if a license grants licensor's "U.S. rights," the purely legal and territorial nature of those rights dictate that U.S. copyright law be applied to determine what rights were granted, rather than the law that choice-of-law rules would select to govern the contract. Indeed, the very description of the rights in the license in this example acknowledges that this is the case.\textsuperscript{82}

The distinction between issues relating to the definition of the underlying property rights and those that are contractual is likely, however, to generate much subtler characterization problems. For example, assume that the law of the jurisdiction creating the rights involved provides in its statute extending

\textsuperscript{81} \textit{Ulmer}, \textit{supra} note 73, at 46 (1978). The intellectual property choice-of-law rules proposed by Professor Eugen Ulmer under the auspices of the Max Planck Institute for possible inclusion in the Rome Convention adopt this distinction. The law of the protecting country (the country for whose territory protection is claimed) governs issues concerning the "creation, scope and termination of a copyright," including interests in the copyright, what may be assigned and the effect of assignment on third parties. Other issues were to be determined in accordance with the Rome Convention. \textit{Id.} at 99-100.

Professor Ulmer adopts the law of the protecting country as the applicable law for issues relating to the nature and scope of the licensor's intellectual property rights because of the territorial principles embodied in the Berne Convention and other copyright treaties. \textit{See id.} at 9-11. As discussed, \textit{see supra} note 77, there is some authority for applying instead the law of the country with the most significant relationship or the law of the country of origin to at least certain ownership issues.

\textsuperscript{82} \textit{Cf.} ITAR-TASS Russian News Agency v. Russian Kurier, Inc., 153 F.3d 82, 90-91 (2d Cir. 1998) (applying law of Russia, the country of origin, as the country with the most significant relationship to determine issues relating to ownership of the copyright, including the nature of that ownership, and law of the United States as the jurisdiction in which the alleged infringement occurred to the infringement issues).
copyright protection to software that a licensee does not need the rightholder's permission to reproduce the software's object code and translate its form when the decompilation is necessary to achieve interoperability, and that this right to decompile cannot be excluded by contract. Is the issue of whether a contract provision prohibiting reverse engineering should be enforced a question to be determined by the law selected by applicable contract choice-of-law rules, or is it an issue relating to the nature and extent of the property rights held by the licensor governed by the law of the jurisdiction creating those rights? One certainly can argue that the nonwaivable right to reverse engineer provided in the copyright statute is part of the "legal nature of the [intellectual property] right as imprinted by the protecting jurisdiction."

Further, the nature of intellectual property contracts suggests that these types of characterization issues are likely to be endemic. Most intellectual property contracts serve dual functions: they both delineate the parties' obligations in connection with the transaction, and serve as the instrument conveying the interest or right of use in the intellectual property. Thus, issues governed by the law of the jurisdiction creating the rights—those regarding the scope, creation, and termination of copyright—are latent in every contract interpretation with regard to an intellectual property license. To complicate matters further, the rights given to the licensee are determined not only by the nature of the licensor's rights, but also by specific contract provisions delineating the licensee's right of use. This means that the ultimate definition of the "product" that is the subject of a software license is a combination of the rights the licensor had to grant (as defined by the law of the relevant copyright jurisdiction) and the parameters of permiss-

84. See EC Software Directive, supra note 83, art 9(1). This Directive thus moves beyond making reverse engineering a defense in an infringement action, making it in essence a nonwaivable right of the licensee.
85. See ULMER, supra note 73, at 44 ("as a rule, in legal practice the assignment or grant of rights is embodied in the contracts in which the obligations of the parties are laid down; in a publishing contract not only are the obligations of the author and the publisher laid down, but also the assignment or grant of the right of reproduction and distribution of the work").
sible use defined by the contract terms (and, thus, by the law
chosen by the applicable contract choice-of-law rules).

2. Public Policy Concerns

The important public policy aspects of intellectual property
suggest that the concerns of interested jurisdictions are implica-
ted by intellectual property contracts in a way that they are
not implicated by most commercial contracts—"[a]lthough
computer information is a central feature of commerce in this
economy, it is still information and calls into play the panoply
of important social issues associated with information and its
dissemination in our society." Because the rights to use soft-
ware conveyed by a license depend not only on the terms of the
license, but also on the intellectual property rights that have
been granted to the licensor, these issues of public policy also
are endemic to intellectual property contacts. When the
terms of the contract conflict with the intellectual property
rights granted, and the important public policies embodied in
the balance of incentives and opportunities those rights repre-

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86. Nimmer, supra note 69, at 230 (discussing First Amendment implications
of restrictions on software).

87. Cf. id. at 227 ("Because the transactions focus on computer information,
important transactional issues commonly exist in reference to what rights to use
are to be conveyed. These issues are not present when goods are sold. In a sale of
goods, the buyer owns the subject matter (e.g., the toaster); ownership creates
exclusive rights in the item purchased. In contrast, when the subject matter is
computer information, a person who acquires a copy may own the diskette, but
does not own the information or rights associated with it. Instead, the person's
rights to use the information depend on contract terms and intellectual property
rights. Terms of the agreement determine what the purchaser obtains beyond the
diskette.") Professor Nimmer points out in his Article in this Symposium that
other principles in addition to intellectual property law, such as the terms of the
license, govern the right to control access to and use of information by the licens-
in an Information Society, 26 BROOK. J. INT'L L. 5 (2000). The fact that the ulti-
mate "product" received by the licensee is defined by other principles in addition
to intellectual property law, however, does not detract from the fundamental im-
portance of intellectual property law to that definition. The monopoly to control
use granted the licensor by intellectual property law is the fundamental protection
that allows the licensor to obtain value from intellectual property through its dis-
semination, subject to the licensor's controls on use. Contract terms only bind the
parties to the contract. Intellectual property law gives good protection against
third parties as well. Thus, the intellectual property rights granted the licensor
clearly are what gives the "product" its initial baseline value to both the licensor
and the licensee, although its ultimate value to the licensee may be further de-

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sent, then what appear to be issues of private contracting can take on a significant public policy aspect.

The strength of the public policy issues that can be implicated in the software licensing area by what at first blush seem to be purely contract questions is illustrated by the heated debate during the drafting of UCITA over the relationship between contract and intellectual property law. The crux of this debate, which was conducted not only in the drafting committee and the sponsoring organizations of the project, but also in the academic community, is the extent to which the parties may by contract agree to restrictions that conflict with public policies of the U.S. Constitution, federal copyright and competition laws, and, to some extent, state laws, such as trade secret laws and laws regulating non-competition agreements.

The UCITA drafters argued that UCITA is neutral on these issues—UCITA is a commercial statute providing rules for contracting in furtherance of the contract law values of freedom of contract and facilitation of commercial practice; the debate over "how and where information is made available and what rights or protections are appropriate for the new methods of distribution" are the subject of "a wide-ranging property law debate that ultimately goes to very fundamental social policy issues about the use and distribution of informa-

88. UCITA began life as a proposed addition to the Uniform Commercial Code to be known as Article 2B. It thus originally was a joint project between the National Conference of Commissioners on Uniform State Laws and the American Law Institute, the cosponsors of the Uniform Commercial Code. In April, 1999, however, NCCUSL and the ALI agreed to terminate the Article 2B project, and NCCUSL continued the project as a uniform state law, rather than as an addition to the U.C.C. UCITA was adopted by NCCUSL in July, 1999.


90. See Nimmer, supra note 69, at 232-33.
tion" and which "cannot and should not be resolved as a matter of state contract law." Therefore, "UCITA adopts a neutral position with respect to what, ultimately, are issues of federal and international policy."

Proponents of the view that UCITA must address the relationship of contract and intellectual property law policies to prevent circumvention of those policies by contract argued, however, that UCITA's status as a contract statute did not resolve the question of whether its provisions had an impact on the strong public policies reflected in intellectual property law. They asserted that rules in UCITA which are purely contractual in nature—provisions relating to how and when a contract is formed, and whether contract terms received after payment become part of the contract—could have a profound impact on U.S. intellectual property policy. By validating and facilitating the use of shrinkwrap licenses, they argued these provisions would allow licensors to circumvent the fundamental public policies regarding innovation, competition and free expression and the careful balancing of interests those policies represent with a "private contractual ordering of intellectual property rights," which, because shrinkwrap licenses are standard form contracts, could be built into a type of private intellectual property legislation, one contract at a time.

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91. Id. at 231 (emphasis added).
92. Id.
93. Samuelson & Opsahl, supra note 89, at 758.
94. See id.

UCITA provides a structure for private contractual ordering of intellectual property rights. This private ordering can have the effect of private legislation if certain agreements (or terms) become ubiquitous (or nearly so) in contracts. It is especially troublesome if the contract attempts to override a public policy rule that would otherwise apply, and if contracts of adhesion become standardized throughout the industry, removing the freedom element of freedom of contract.

Id. Samuelson & Opsahl use the example of reverse engineering to illustrate their point:

For example, anti-decompilation clauses in software contracts seek to prevent reverse engineering that would otherwise be permissible. If every contract contained a prohibition on decompiling software, then a perfectly legal act could be rendered de facto illegal, despite the two-party nature of each individual contract . . . . "[W]hen the restored power of the two-party deal in the digital universe is combined with the power to impose non-negotiated terms, it produces contracts (not 'agreements') that are roughly equivalent to private legislation that is valid against the world."

Id. (quoting Reichman & Franklin, supra note 89, at 911).
The debate about the extent to which UCITA should address the intersection of contract and intellectual property law was resolved in the UCITA drafting process through the addition of section 105(b), which gives the forum the power to refuse to enforce a term of a contract that violates a fundamental public policy "to the extent that the interest in enforcement is clearly outweighed by a public policy against enforcement of the term." Comment 3 states that "[t]he . . . public policies most likely to be applicable to transactions within this Act are those relating to innovation, competition, and fair comment." Although the UCITA drafters continue to take the position that UCITA is neutral with regard to the relationship of contract and intellectual property law, as Professor Ray Nimmer has noted, subsection 105(b) "provides a basis for a case-by-case resolution of the myriad issues" that question raises.

Whichever side one takes in the debate over the extent to which UCITA should address the relationship between contract and intellectual property law, for present purposes, the important thing is the existence of the debate. The debate over UCITA illustrates that even when a dispute involves an issue of contract law, the fact that the subject matter of a software license is intellectual property means that important public policies of interested jurisdictions are implicated in a way that they are not with regard to the normal contract to sell goods or perform services. While software contracts may be instances of private ordering between two individuals, they are private ordering with strong public policy implications for society in general.

Further, the extent of the disagreement and debate over these issues within one jurisdiction dealing with a single set of federal intellectual property policies underlines how much more potential there is for conflict once one enters the international setting, where different interested jurisdictions may have conflicting public policies, and where the jurisdiction whose law will be applied to the contract aspects of the transaction and the jurisdiction creating the underlying rights may not be the same. The important public policy decisions encoded

95. UCITA § 105(b) (2000).
96. Id. cmt. 3.
97. Nimmer, supra note 69, at 231. For further discussion of section 105(b) see infra Part V, discussing the UCITA choice-of-law provision.
into each jurisdiction's intellectual property laws and the perceived potential for the terms of a software license to have adverse effects on those public policies, suggest that choice-of-law rules in this area must pay more attention to choice-of-law principles that emphasize the concerns of interested jurisdictions than do choice-of-law rules with regard to other types of contracts. Choice-of-law rules for all contracts must consider the concerns of interested jurisdictions, particularly with regard to mandatory rules of those jurisdictions, such as those dealing with consumer protection. Choice-of-law rules for software licenses, however, must deal not only with the contract-related concerns of interested jurisdictions, but also with their intellectual property-related concerns, a group of concerns which, because of the nature of software licenses, are potentially implicated by every software license, not just those involving certain parties or certain types of transactions.

One can predict, therefore, that the public policy exception and the concept of mandatory rules, which allow the forum to override the otherwise applicable law, will have a heightened significance in this area. Further, because policies in this area are not only important to the respective jurisdictions involved, but also vary between jurisdictions, systemic concerns will be an important consideration as well. These concerns will need to be addressed through placing careful limits on the use of public policy and mandatory rules when applied to favor the forum. As discussed above, when public policy and mandatory rules provisions are designed only with a view towards protecting the interests of the forum, then they devalue the systemic concerns with regard to mutual respect and cooperation, and thus invite retaliation by other interested jurisdictions. Therefore, the extent to which the forum should apply public policy and mandatory rules principles in favor of other interested jurisdictions also must be considered, as that application furthers the systemic interests in mutual respect and cooperation.

Further, because public policy and mandatory rules over-

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98. This concern is not insubstantial. See, e.g., Erauw, supra note 59, at 74-79 (discussing European mandatory consumer protection rules); Directive 97/7/EC of the European Parliament and of the Council of 20 May 1997 on the protection of consumers in respect of distance contracts, art. 12, 1997 O.J. (L 144) 19 (providing consumer rights conferred are nonwaivable and directing member states to take measures needed to ensure consumer does not lose protection by virtue of choice of law of non-member country).
ride the law chosen by the parties by contract, one can predict that contractual choice-of-law rules cannot be relied upon to ensure certainty and predictability in this area to the extent that they can in other types of contracts. As discussed in Part III, the ability of the parties to choose applicable law by contract ultimately depends on the willingness of the forum to enforce their choice-of-law clause. Normally, enforcement of such a clause would not be problematic because the jurisdiction's interests will not be implicated in any significant way by the parties' private ordering of their relationship. Once such an interest is implicated, however, the enforceability of the choice-of-law provision is doubtful. The interests of a state can be implicated with regard to any type of contract by some contract-related problem, such as lack of consent or unconscionability, which would cause the forum to deny effect to the choice-of-law provision. Such contract-related concerns, however, are likely to arise in only a relatively few contracts, and thus, the parties to most contracts can rely on the choice-of-law clause in planning their transaction. The nature of the product involved in an intellectual property transaction, however, means that state interests potentially are implicated by every software license, and the ability of the parties to rely on their choice of law is concomitantly reduced.

If the prediction that party autonomy may not prevail in this area to the extent it does with regard to other contracts is an accurate one, this suggests the parties' planning interests in certainty and predictability will need to be taken into account in some other fashion. It thus seems appropriate to consider whether jurisdiction-selecting rules may be more important in this area than with regard to normal contract choice-of-law rules, at least with regard to some issues, as a multilateral approach not only values certainty and predictability, but systemic interests as well. With this thought, however, we return full-circle. Multilateralist approaches only work to the extent that the jurisdiction selected by the rules to govern a particular issue is one acceptable to potential fora within the choice-of-law system. The strong public policy concerns of interested jurisdictions implicated by software licenses suggest, however, that consensus on jurisdiction-selecting rules may be difficult to reach.99

99. Cf. Goldsmith, supra note 15, at 1206 (noting that one reason for the
Consider a variation on the hypothetical discussed in the section on characterization. The copyright law of Jurisdiction A provides that licensees may reproduce the software's object code and translate its form when the decompilation is necessary to achieve interoperability, and that this right to decompile cannot be excluded by contract. The software license prohibits reverse-engineering for any purpose. The software license also contains a choice-of-law clause choosing the law of Jurisdiction B. Contract provisions prohibiting reverse-engineering are consistent with the copyright law of Jurisdiction B. Both licensor and licensee are nationals of Jurisdiction A. The licensee decompiles the software to achieve interoperability in Jurisdiction A. The licensor files suit in Jurisdiction B for breach of the license. Should Jurisdiction B apply its own law pursuant to the choice-of-law clause and enforce the absolute prohibition on reverse-engineering? Or, should it recognize and enforce the mandatory rule of Jurisdiction A prohibiting this type of contract provision?

Applying its own law to enforce the prohibition on reverse-engineering would further the planning-related interests of the parties in certainty and predictability, and in the ability to choose a substantively favorable law. It also would serve the expectation and fairness interests of at least one party to the transaction, as the existence of the choice-of-law clause indicates that it was efficient for at least the drafter of the license to take choice of law into account in structuring the transaction. As discussed in Part II, whether enforcing the choice-of-law clause serves the expectation and fairness interests of the other party depends on the nature of the transaction. Enforcing the contractual choice of law also would further Jurisdiction B's own public policy with regard to the appropriate balancing of protection and free access reflected in its copyright statute.

On the other hand, recognizing the mandatory rule of Jurisdiction A would further Jurisdiction A's interest in controlling activities within its borders, as well as its interest in its domiciliaries and in effectuating the policies embodied in its
copyright statute. Recognition of the mandatory rule also would further the systemic goals of mutual respect, cooperation, and uniformity of application. One also can argue that Jurisdiction B's interest in furthering its copyright policy in this instance is not particularly strong, as Jurisdiction B would not have entertained an infringement action in this case because none of the acts took place in Jurisdiction B. Further, if Jurisdiction B refuses to recognize the mandatory rule of Jurisdiction A, then the parties to the software license will be allowed to circumvent the mandatory rules of their common domicile by contract. Because Jurisdiction A clearly would have denied enforcement to the reverse-engineering provision if the licensor had file suit in Jurisdiction A, Jurisdiction B's failure to apply the mandatory rule also will lead to forum-shopping, and may lead to retaliation by Jurisdiction A through its refusal to recognize the mandatory rules and strong public policies of Jurisdiction B in similar situations.

The above hypothetical is deliberately simplistic: all of the parties' contacts relevant to the transaction appear to be in Jurisdiction A, and Jurisdiction A's interests are clearly implicated, while Jurisdiction B's interests do not appear to be implicated to any great extent. The conflict in the hypothetical thus is primarily one between the planning interests of at least one, and perhaps both of the parties on one side, and the interests of Jurisdiction A and of the international choice-of-law system on the other. Real choice-of-law issues regarding software licenses are likely to be much more complex. This simple hypothetical, however, illustrates a conflict of interests that is likely to arise in many different guises with regard to software licenses. Should the forum favor the planning interests of at least one (and maybe both) of the parties to the license, or should it favor the interests of the interested jurisdiction and the choice-of-law system as a whole by applying the mandatory rule of Jurisdiction A? In this case, it seems clear that the mandatory rule of Jurisdiction A should be applied.

V. ANALYSIS OF UCITA SECTION 109

Unlike most of the existing choice-of-law rules designed to deal with contract issues, the choice-of-law rules contained in section 109 of UCITA are designed specifically for contracts involving intellectual property. This section analyzes the
UCITA choice-of-law rule in terms of the framework suggested by this Article's previous discussion.

As with most modern choice-of-law rules, UCITA's choice-of-law provision is fairly eclectic; rather than adopting a particular approach to choice of law, such as multilateralism or center of gravity, its provisions combine the various choice-of-law rules discussed in Part III to obtain a more particularized balance of the relevant interests. The main features of section 109 are: (1) a broad authorization for the parties to choose applicable law by agreement; (2) jurisdiction-selecting rules for determining applicable law in the absence of choice in certain situations; (3) a center of gravity approach for situations not covered by the jurisdiction-selecting provisions; (4) consideration of mandatory rules of another jurisdiction, as well as of the forum in certain situations; and, (5) a public policy exception limited to situations in which the law otherwise chosen is the law of a country other than the United States. Each of these features is discussed below.

A. Choice of Law by Contract

Subsection 109(a) provides that "[t]he Parties in their agreement may choose the applicable law."¹⁰⁰ The provision does not require that the law chosen be related to either the parties or the transaction, but does make the contractual choice in a consumer contract subject to the mandatory rules of the jurisdiction whose law would be chosen in the absence of contractual choice under the other provisions of section 109. Comment 2 states:

The information economy accentuates the[ ] importance [of contractual choice of law provisions] because it allows remote parties to enter and perform contracts spanning multiple jurisdictions and operating in circumstances that do not depend on physical location of either party or the information. Subsection (a) enables small companies to actively engage in multinational business; if the agreement could not designate applicable law, even the smallest business could be subject to the law of all fifty states and all countries in the world. That would impose large costs and uncertainty on an otherwise

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efficient system of commerce; it would raise barriers to entry. 101

The comment indicates that limits on contractual choice of law based on a reasonable relationship to the jurisdiction whose law is selected were rejected as “inappropriate, especially in cyberspace transactions where physical locations are often irrelevant or not knowable.” 102 Finally, the comment notes that “in global commerce, parties may appropriately wish to select a neutral forum because neither is familiar with the law of the other’s jurisdiction.” 103 Thus, except for this last rationale, the primary rationales for UCITA’s broad authorization of contractual choice of law are based on the characteristics of Internet commerce and the needs of Internet entrepreneurs. 104

1. Exception for Mandatory Rules of the Jurisdiction Whose Law Would Otherwise Apply

The focus of subsection 109(a) on the needs of electronic commerce is underlined by the one textual limit on contractual choice in subsection 109(a), which provides that the contractual “choice is not enforceable in a consumer contract 105 to the extent it would vary a rule that may not be varied by agreement under the law of the jurisdiction whose law would apply” in the absence of contractual choice under UCITA’s default rules. 106 These rules are set out in subsections 109(b) and (c). Under subsection 109(b)(1), access contracts and contracts that “provid[e] for electronic delivery of a copy”—the types of contracts most likely to be involved in Internet transactions—are

101. Id. § 109 cmt. 2.
102. Id.
103. Id.
104. Although the rationales for the contractual choice provision focus primarily on the needs of electronic commerce, the broad contractual choice-of-law provision applies to all transactions, not just those conducted electronically.
105. “Consumer contract” is defined as “a contract between a merchant licensor and a consumer.” Id. § 102(a)(16). A “consumer” is “an individual who is a licensee of information or informational rights that the individual at the time of contracting intended to be used primarily for personal, family or household purposes.” Id. §102(a)(15). A “merchant” is a person that, inter alia, “deals in information or informational rights of the kind involved in the transaction.” Id. § 102(a)(45).
106. Id. § 109(a).
governed by "the law of the jurisdiction in which the licensor was located when the agreement was entered into."\textsuperscript{107} The licensor's "location" is not necessarily the licensor's physical location; rather, it is (depending on the circumstances) its "place of business," "chief executive office," "place of incorporation or primary registration," or "primary residence."\textsuperscript{108} Thus, when software is delivered in an electronic transaction, the parties' contractual choice of law in a consumer contract is only subject to any applicable mandatory rules of the licensor's jurisdiction.

The comments refer to this mandatory rules exception as "a consumer protection rule[ ],"\textsuperscript{109} and state that the "fundamental policy of freedom of contract should not permit overriding the consumer rule if a state, having addressed the cost and benefits to all parties, determines that the consumer rule is not waivable by contract."\textsuperscript{110} Normally, one would assume that an exception to party autonomy in favor of mandatory consumer rules would be designed to address the expectation and fairness concerns of parties for whom it is not efficient to consider choice of law in making contracts, as consumers are often used as a rough approximation of that group. Further, a mandatory rules exception requiring application of the law of an interested jurisdiction other than the forum usually serves both the interests of that jurisdiction and systemic interests in cooperation and mutual respect. As applied to electronic commerce, however, the consumer exception in subsection 109(a) does not appear to be designed primarily to address either the expectation and fairness concerns of the consumer licensee or the concerns of jurisdictions that have an interest in the application of their mandatory consumer protection rules. Party expectation and fairness interests are not served because the consumer is most likely to expect that the law of her residence would apply. Similarly, one would assume that the jurisdiction with the most interest in having its mandatory consumer rules apply would be the jurisdiction in which the consumer resides. Other choice-of-law regimes that contain limits on party autonomy in a consumer context appear to be based on this assumption.\textsuperscript{111}

\textsuperscript{107} Id. § 109(b)(1).
\textsuperscript{108} Id. § 109(d).
\textsuperscript{109} Id. § 109 cmt. 1.
\textsuperscript{110} Id. § 109(a) cmt. 2b.
\textsuperscript{111} See, e.g., Rome Convention, supra note 27, art. 5(1) (a choice of law made
Instead, in the electronic commerce area, the primary interests served by subsection 109(a) appear to be the interests of the licensor in avoiding the costs associated with becoming familiar with the mandatory rules of jurisdictions in which it licenses software to consumers, and in obtaining certainty and predictability through contractual choice of law. The application of the mandatory rules exception in the electronic commerce context to apply the mandatory rules of the licensor's jurisdiction means that, at most, the licensor need only become familiar with the law of two jurisdictions—the law of the jurisdiction selected by the contractual choice-of-law provision and the law of its jurisdiction of residence. Further, because in a consumer contract the licensor is likely to make the decision as to the applicable law chosen by the license, the licensor can, if it chooses, restrict applicable law solely to that of its own jurisdiction. Thus, the consumer exception appears to remove licensor costs that otherwise might be associated with Internet commerce.

The overriding concern of the UCITA choice-of-law rules with certainty and predictability in electronic transactions is underlined by the significantly different treatment of the mandatory rules exception outside of that context. The default choice-of-law rule to which subsection 109(a) likely will refer outside of the electronic commerce context states that “[a] consumer contract that requires delivery of a copy on a tangible medium is governed by the law of the jurisdiction in which the copy is or should have been delivered to the consumer.”

In the contractual choice-of-law context, this rule would mean that the contractual choice-of-law provision would not be enforceable to the extent of a mandatory rule of the state where the tangible copy is or should have been delivered, which often

by the parties shall not have the result of depriving the consumer of the protection afforded to him by the mandatory rules of the law of the country in which he has his habitual residence" in certain circumstances); U.C.C. § 2A-106(1) (1995) ("If the law chosen by the parties to a consumer lease is that of a jurisdiction other than a jurisdiction in which the lessee resides at the time the lease agreement becomes enforceable or within 30 days thereafter or in which the goods are to be used, the choice is not enforceable."); U.C.C. § 1-301(b) (ALI Council Draft, Nov. 22, 1999) (choice-of-law provision is not enforceable if one party is a consumer unless the law chosen is either law of the State or country in which consumer resides or in which consideration flowing to consumer is to be received or used).

will coincide with the consumer's residence. Thus, once one moves outside of the context of electronic delivery of software, the consumer exception does seem more likely to give some weight to expectation and fairness concerns, as well as the concerns of a jurisdiction likely to have a strong interest in having its mandatory consumer rules applied.  

2. Mandatory Rules of the Forum

Comment 2 indicates that parties' contractual choice of law under subsection 109(a) also is subject to two limits based on mandatory rules of the forum: (1) "general limitations such as the doctrine of unconscionability;" and, (2) the public policy exception in UCITA section 105. Comment 2 states that "agreed choice of law terms" are subject to the unconscionability provision. Thus, the intention seems to be to apply unconscionability doctrine and similar limits only to the choice-of-law term itself, rather than to make them generally applicable to the terms of the license.

The fundamental public policy exception, on the other hand, would allow the forum to deny enforcement to all or part of a contract "to the extent that the interest in enforcement is clearly outweighed by a public policy against enforcement of the term." As discussed in Part IV above, subsection 105(b) represents UCITA's resolution of the issue of the relationship between contract terms and the public policies expressed in U.S. and state intellectual property law. Its focus, therefore, is on "policies that implicate the broader public interest and the balance between enforcing private transactions and the need to protect the public domain of information," and, in particular, "those relating to innovation, competition, and fair comment." Comment 3 indicates that section 105 is not intended to apply to purely contract law issues, such as contract formation. Applied as a mandatory rule in the choice-of-law

113. Comment 3 states that this rule "adopts, for the consumer, the location that is most likely to be consistent with the consumer's expectations. It avoids surprise to the provider because the tangible copy is, by definition, to be delivered into that state."  
114. Id. cmt. 2b.  
115. Id.  
116. Id. § 105(b).  
117. Id. cmt. 3.  
118. Id.
context, section 105 presumably will allow the forum to refuse to enforce a term of a software license enforceable under the law chosen by the parties because enforcement of that term violates forum policies related to intellectual property, including policies embodied in federal intellectual property laws and the Constitution.\textsuperscript{119}

Mandatory rules of the forum value the interest of the forum in enforcing its policies over the planning related interests of the parties. The mandatory forum rules in UCITA section 109 will allow the forum to deny enforcement to the choice-of-law provision itself based on the forum's determination that under its standards of fairness the contractual choice of law is unconscionable.\textsuperscript{120} Further, application of section

\textsuperscript{119} Comment 3 to section 105 states that:
Under the general principle in subsection (b), courts . . . may look to federal copyright and patent laws for guidance on what types of limitations on the rights of owners of information ordinarily seem appropriate, recognizing, however, that private parties ordinarily have sound commercial reasons for contracting for limitations on use and that enforcing private ordering arrangements in itself reflects a fundamental public policy enacted throughout the Uniform Commercial Code and common law. \textit{Id.}

The comment also lists a variety of factors to be considered in applying the section,
including the extent to which enforcement or invalidation of the term will adversely affect the interests of each party to the transaction or the public, the interest in protecting expectations arising from the contract, the purpose of the challenged term, the extent to which enforcement or invalidation will adversely affect other fundamental public interests, the strength and consistency of judicial decisions applying similar policies in similar contexts, the nature of any express legislative or regulatory policies, and the values of certainty of enforcement and uniformity in interpreting contractual provisions.
\textit{Id.} The comment further states that the fact the parties have negotiated terms of their agreement also should make the court more reluctant to set aside terms of the contract, and "[i]n light of the national and international integration of the digital environment, courts should be reluctant to invalidate terms based on purely local policies." \textit{Id.}

120. Application of the unconscionability rule also may protect the expectation and fairness concerns of the party found to be subject to a contract of adhesion, although it does so under the forum's own standards of what those interests require. In this regard, one can compare UCITA with other choice-of-law regimes in which decisions about the substantive validity of a contract generally are governed by the law that would apply if the contract were valid, and in some instances by the law of the domicile of the party claiming invalidity. \textit{See, e.g., RESTATMENT (SECOND) CONFLICT OF LAWS, supra note 2, \S 198 (capacity to contract governed by law otherwise chosen, but if there is capacity under the law of party's domicile contract usually will be upheld); id. \S 201 (effect of misrepresentation, duress, undue influence and mistake governed by law otherwise chosen); Rome Convention,
105 will allow the forum to deny enforcement to any terms of the license that are inconsistent with the forum’s fundamental public policy embodied in its intellectual property law. Therefore, these mandatory rules lessen to some degree the focus of subsection 109(a) on the planning-related interests of the parties, such as certainty and predictability and the ability of the parties to choose a substantively favorable law.

B. Choice of Law in Absence of Agreement

Subsection 109(b) sets forth the choice-of-law rules to be applied by the forum in the absence of an enforceable contractual choice-of-law provision. As discussed above, subsection 109(b) contains two jurisdiction-selecting rules based on the method of delivery of the software. The law of the licensor’s domicile/residence, or legal equivalent, governs access contracts and contracts “providing for electronic delivery of a copy”—a category that roughly, although not completely, corresponds with contracts made by electronic means. The

supra note 27, art. 8 (existence and validity of contract or its terms governed by law that would apply if the contract or term was valid, except a party may rely on the law of his habitual residence to establish lack of consent if under circumstances that law should apply). In his discussion of a similar provision in Article 10(1) of the 1985 Hague Convention, Draft Convention on the Law Applicable to Contracts for the International Sale of Goods, Done at the Hague, Oct. 30, 1985, 24 I.L.M. 1573, Professor Željko Matić notes that, while applying the law that would apply if the contract were valid rather than the law of the forum seems circular, the justification is grounded in protecting the parties’ interests in certainty and predictability: [The application of the lex fori, which would be the only “logical” solution to the problem, would create uncertainty at least until the court settled the matter of whether their choice in law was valid. Since the parties can only guess, without knowing for sure which law will be the lex fori, the “illogical” solution becomes a practical one. Željko Matić, The Hague Convention on the Law Applicable to Contracts for the International Sale of Goods—Rules on the Applicable Law, in INTERNATIONAL CONTRACTS AND CONFLICTS OF LAWS, supra note 59, at 51, 62-63. The recognition of the relevance of the law of the complaining party’s domicile to these issues suggests that a recognition of the interests of that jurisdiction also underlies these rules.]


122. The section only roughly corresponds to electronic contracting because it defines its scope in terms of the method of delivery rather than the method of contracting. It is certainly possible to contract through some means other than the Internet, such as, for example, through a telephone call, but have the software delivered electronically. Similarly, it is possible to contract on the Internet for software that is to be delivered on a tangible medium. The comments, however,
law of the jurisdiction "in which the copy is or should have
been delivered to the consumer" governs consumer contracts
"that require[ ] delivery of a copy on a physical medium."
For cases not governed by these two jurisdiction-selecting pro-
visions, UCITA applies a "center of gravity" approach—"the
contract is governed by the law of the jurisdiction having the
most significant relationship to the transaction."

1. Selection of the Licensor’s Jurisdiction to Govern in Cases
   of Electronic Delivery

   As discussed in Part IV, the nature of the "product" in
software licensing indicates that jurisdictions will more often
find their public policies and mandatory rules implicated by
software licenses than by other contracts. Thus, the parties’
use of contractual choice of law to provide certainty and pre-
dictability in this area may not be as effective as it would be
with regard to normal contracts. Therefore, the need for juris-
diction-selecting rules allocating competence with regard to
certain issues in a way acceptable to the members of the
choice-of-law system in order to obtain certainty and predict-
ability on a systemic level may be greater with regard to soft-
ware licenses than with regard to other types of contracts.

Section 109 adopts this type of "belts and suspenders"
approach to attaining certainty and predictability in the area
of electronic contracting by providing both a broad authoriza-
tion for choice of law by contract and a bright line rule select-
ing the law of the licensor’s jurisdiction in the absence of effec-
tive choice for contracts providing for electronic delivery of a
copy. The rationale for a bright line rule, however, is not based
on the need to obtain certainty and predictability within the
international choice-of-law system, but rather on the special
needs of licensors engaging in electronic commerce:

   Contracts in computer information can be created and per-
formed remotely, a factor encouraging the need for tailored

indicate that the provision is intended to deal with electronic contracting, even
though it speaks in terms of electronic delivery. Id. cmt. 3 (subsection (b)(1) deals
with electronic commerce).
123. Id. § 109(b)(2).
124. Id. § 109(b)(3).
125. See supra text accompanying notes 98-99.
and understandable rules that enhance certainty and thus facilitate global commerce.

Subsection (b)(1) specifies that, in an access contract or a contract involving electronic delivery of information, in the absence of an agreed choice of law, the agreement is governed by the law of the jurisdiction in which the licensor is located. Any other rule would require that the information provider (small or large) comply with the law of all states and all countries, since it may not be clear or even knowable where the contract is formed or the information sent. The rule adopted here enhances certainty in a context where an online vendor, large or small, makes Internet access available to the entire world.\footnote{126}

As with the primary rationales for broad contractual choice of law, the rationale for selecting the licensor's jurisdiction is based on two characteristics of Internet transactions: (1) it is possible to deal with someone on the Internet without knowing that person's physical location; and, (2) information on the Internet is simultaneously provided to all jurisdictions.\footnote{127}

If the licensor indeed had no ability to know the location of the licensee, and no ability to limit the jurisdictions in which it licenses software, then serious notice concerns would be raised by subjecting the licensor to the law of the licensee's jurisdiction. Thus, the licensor's fairness and expectation concerns would be added to its planning concerns in justifying a bright line rule selecting the law of the licensor's jurisdiction. In fact, however, the licensor can control the extent to which it knows the location of its licensees, as well as the extent to which it

\footnote{126. UCITA § 109(b)(1) cmt. 3 (2000).

127. These rationales echo to some extent arguments made by David R. Johnson and David Post in their article \textit{Law and Borders—The Rise of Law in Cyberspace}, as rationales for why sovereigns should refrain from regulation of the Internet in deference to self-regulation by Internet service providers and users. Johnson & Post, supra note 67, at 1387. Johnson and Post argue that because "[t]he Net enables transactions between people who do not know, and in many cases cannot know, each other's physical location," \textit{id}. at 1371, and because information on the World Wide Web is simultaneously available to anyone with a connection to the Internet, territorially-based regulation would both subject all Internet activity simultaneously to the laws of all territorial sovereigns, \textit{id}. at 1374-75, and create serious fairness problems because individuals would not have notice that their activity would subject them to the laws of distant places, \textit{id}. at 1375. They therefore urge that we take the "space" in the term "cyberspace" literally, and recognize the Internet as a distinct, although, virtual world "that needs and can create its own law and legal institutions." \textit{Id}. at 1387.}
does business in a particular jurisdiction, thus subjecting itself to the application of that jurisdiction's laws. The licensor can determine the location of its licensee by conditioning access to its Website, or at least to the portion of it on which licensing agreements are entered, on the licensee providing information about its location.\(^\text{128}\) Indeed, in commercial transactions, such as those involving software licenses, the likelihood that the licensor will have incentives to condition access on the provision of information about the licensee is quite high. Aside from the fact that it is a good business practice to know certain basic information about persons with which one does business, the independent commercial value that information about those visiting Websites increasingly has today would seem likely to motivate the licensor to obtain as much information about the licensee as possible. Further, licensors will need to obtain this type of information in order to avoid liability under the regulatory rules of various jurisdictions.\(^\text{129}\)

With this information about the licensee's location, the licensor then can make a determination as to whether it wants to subject itself to the application of that jurisdiction's laws. It can either provide the potential licensee with information modified to comply with the regulations of that particular jurisdiction, or deny access to the Website if the licensor does not wish to be exposed to the law of that jurisdiction.\(^\text{130}\)

The licensor's ability to control the extent to which it engages in transactions with individuals in unknown locations through controls on access, as well as, increasingly, through more sophisticated technology,\(^\text{131}\) means that, at least from the licensor's perspective, Internet transactions are not that

\(^\text{128}\) See Goldsmith, supra note 15, at 1226-27.

\(^\text{129}\) For example, the European Union Data Protection Directive may require Internet sites collecting personal data about visitors from the EU countries to be treated differently in order to conform with its provisions. See Amelia Boss, The Jurisdiction of the Commercial Law: Party Autonomy in Choosing Applicable Law and Forum Under Proposed Revisions to the Uniform Commercial Code, 32 INT'L LAW. 1067, 1070 (1998).

\(^\text{130}\) See id.

\(^\text{131}\) Other, more sophisticated forms of information discrimination technology also are available. See Goldsmith, supra note 15, at 1224-27 (discussing available technologies). Professor Goldsmith predicts that "the techniques and technologies for controlling cyberspace information flows will continue to develop in scope and sophistication, and will play an important role in resolving the jurisdictional quandaries presented by the 'borderless' medium." Id at 1228.
different from other multi-jurisdiction transactions for purposes of choice of law. Internet transactions often do present serious choice-of-law problems: problems of complexity with regard to how to choose a single governing law for activity having multi-jurisdictional contacts, and problems of situs in determining “how to choose governing law when the locus of activity cannot easily be pinpointed in geographical space.” These problems, however, do not distinguish software licensing transactions from many other multi-jurisdictional transactions. They do not explain, for example, why a licensor should not be subject to the law of jurisdictions in which it licenses software, just as a seller of goods or the publisher of a newspaper may be subject to the law of all states in which the goods are sold or the paper is distributed. If, like these entrepreneurs of tangible items, the licensor can control its exposure to unwanted law by refusing to engage in transactions in a jurisdiction, then, in both situations there is a deliberate choice to engage in transactions in the jurisdiction. Thus, the benefits gained from those transactions would seem to make it fair to apply the law of that jurisdiction to those transactions in both situations. Nor does the size of the licensor seem to provide a rationale for not applying the law of jurisdictions in which the licensor deliberately chooses to do business. The size of a particular commercial enterprise alone has never provided an independent rationale for denying the application of otherwise applicable law. As with other entrepreneurs, the issue becomes the extent to which choice-of-law costs should be placed on those doing business in multiple jurisdictions.

This does not necessarily mean that a rule applying the law of the licensor’s jurisdiction in all Internet software licenses cannot be justified. It simply means that such a rule cannot be justified in terms of the need to give more weight to the fairness and expectation interests of the licensor because of the unique characteristics of the Internet. Certainty and predictability are important values in all contractual transactions, and, as this Article has suggested above, in the area of international software licensing, obtaining certainty and predict-

132. Id. at 1234.
133. See id. at 1230.
134. Cf. id. at 1241 (noting the applicability of a reciprocal benefits analysis to territorial regulation of Internet service providers).
ability through jurisdiction-selecting rules is a particularly worthy goal. Certainty and predictability within a forum can be obtained through any bright line rule; however, in order to obtain certainty and predictability within a choice-of-law system, the particular rule must be one acceptable to at least most jurisdictions within the system.

Does the rule allocating substantive law competence to the licensor’s jurisdiction when software is delivered electronically have the potential to become an accepted rule in the international choice-of-law system? Some precedent for the rule can be found in the Rome Convention. In applying its general principle that, absent contractual choice, the contract is governed by the law of the jurisdiction “with which it is most closely connected,” the Rome Convention creates a presumption “that the contract is most closely connected with the country where the party who is to effect the performance which is characteristic of the contract has, at the time of conclusion of the contract, his habitual residence or, in the case of a body corporate or unincorporate, its central administration.” The characteristic performance under a contract is not the payment of money, but “the performance for which the payment is due, i.e. depending on the type of contract, the delivery of goods, the granting of the right to make use of an item of property, the provision of a service . . . etc., which usually constitutes the centre of gravity and the socio-economic function of the contractual transaction.” Therefore, the characteristic performance concept often will result in application of the law of the seller’s jurisdiction in a goods transaction, and, arguably should result in application of the law of a licensor’s jurisdiction in a licensing transaction.

135. Rome Convention, supra note 27, art. 4(2). Article 4 goes on to state that: [I]f the contract is entered into in the course of that party’s trade or profession, that country shall be the country in which the principal place of business is situated or, where under the terms of the contract the performance is to be effected through a place of business other than the principal place of business, the country in which that other place of business is situated.


137. Indeed, the Proposed Rules, which were developed by Professor Eugen Ulmer to supplement the Rome Convention with regard to intellectual property issues, often treat the licensor’s performance as the “characteristic performance” under the license, and thus point to application of the licensor’s jurisdiction for
Two differences between the Rome Convention concept of characteristic performance and the UCITA rule applying the law of the licensor's jurisdiction suggest, however, that UCITA's rule may not be acceptable as an international standard, at least in its current absolute form. First, unlike the UCITA rule, the concept of characteristic performance is a rebuttable presumption, not an absolute rule. It only applies in the absence of a showing that "from the circumstances as a whole . . . the contract is more closely connected with another country." Further, perhaps in recognition that the characteristic performance presumption often will lead to application of the law of the stronger party, it does not apply at all to certain consumer contracts, and individual employment contracts. Instead, in those situations, the "law of the country in which the consumer has his habitual residence," and "the law of the country in which the employee habitually carries out his work in performance of the contract" apply.

Second, although the Rome Convention rules were designed in light of modern technological advances, such as contracts by telex, which make use of more traditional jurisdiction-selecting criteria, such as the place of formation, difficult to apply, they were not designed in light of Internet tech-

issues relating to contract. Proposed Article F(2) states that:

The obligations of the author or of his successor in interest shall be regarded as the characteristic obligation within the meaning of Article 4(2). There shall, however, be a general presumption that contracts under which the grantee undertakes to exploit the work or exercise rights therein, and instruments pursuant to which an exclusive right is assigned or granted to him in order for the work to be exploited, shall be regarded as more closely connected with the State in which the grantee's place of business is located . . . .

ULMER, supra note 73, at 100. These rules were to be treated as guidelines, which could be overridden by a finding that a different state has the closest connection. Id at 51.

138. Rome Convention, supra note 27, art. 4(5).
139. Id. art. 5(3).
140. Id. art. 6(2)(a). Unlike the consumer provision, the employee provision is not absolute. If the employee does not habitually carry out his work in one country, then the law of the country in which the place of business through which he was engaged is located controls. Id. art. 6(2)(b). Further, if "from the circumstances as a whole . . . the contract is more closely connected with another country," then that country's law applies. Id. art. 6(2).
141. See Jayme, supra note 63, at 43 (noting that modern technology has made it difficult to determine the place where the contract was concluded, "rendering the place of formation of the contract an arbitrary and meaningless connection"); Report on the Convention, supra note 45, at 21 (noting that the "characteristic per-
nology. As discussed above, the fact that it is possible for an Internet transaction to be conducted without the parties knowing each other's locations does not seem significant as a factor in deciding whether the licensor's interests should be given greater weight in adopting a choice-of-law rule because the licensor has ready means of determining the location of the licensee, as well as significant incentives to do so. On the other hand, the likelihood that the licensee engaging in an Internet transaction will know the "place of business," "chief executive office," "place of incorporation or primary registration," or "primary residence" of the licensor, unless the licensor provides that information on its Website, may be quite small, thus raising serious questions about expectations and fairness in the application of the UCITA rule. The extent to which these expectation and fairness concerns are implicated would need to be explored before such a rule was adopted as an international norm.

2. Jurisdiction-Selecting Rule in Consumer Contracts

Jurisdiction-selecting rules for consumer contracts are an increasingly common feature in contract choice-of-law regimes. The particular bright line rule in UCITA section 109, providing that a consumer contract requiring delivery on a tangible medium is governed by the law of the "jurisdiction in which the copy is or should have been delivered to the consumer," however, is not as uniformly accepted. The Second Restatement indicates that the jurisdiction of delivery usually will govern with regard to sales of chattels, but this is neither a special consumer rule, nor a bright line rule. Other U.S. choice-of-law regimes applying bright line consumer rules use the consumer's residence or the place of use. The Rome Con-

142. See supra text accompanying notes 127-134.
143. UCITA § 109(d) (2000) (defining location of the licensor).
144. RESTATEMENT (SECOND) CONFLICT OF LAWS, supra note 2, § 191 (contract to sell an interest in a chattel is governed by the law of the state where seller is to deliver the chattel unless some other state has a more significant relationship).
145. See, e.g., U.C.C. § 2A-106(1) (1995) (limiting contractual choice to the consumer's residence or jurisdiction in which the goods will be used). Draft Re-
vention also focuses on the law of the consumer's residence, rather than the place of delivery. Thus, the potential for this particular rule to be adopted on a system-wide basis seems somewhat uncertain.

3. Most Significant Relationship

Subsection 109(b)(3) provides that in cases not covered by the jurisdiction-selecting rules—that is, cases that do not involve electronic delivery and do not involve consumer contracts—"the contract is governed by the law of the jurisdiction having the most significant relationship to the transaction." As discussed in Part III, a center of gravity approach de-emphasizes certainty and predictability in favor of allowing the forum to consider the concerns of interested jurisdictions, as well as the fairness and expectation interests of the parties, on a case by case basis. UCITA’s particular center of gravity approach, however, shows a somewhat remarkable lack of concern for certainty and predictability, particularly when contrasted with the overriding focus of UCITA’s electronic commerce choice-of-law rules on those concerns. Other center of gravity approaches give textual guidelines for the forum’s determination of the center of gravity. The Restatement Second, for example, contains both general principles and specific

\[\text{vised Article One contains a restriction on choice-of-law provisions in consumer transactions to the place where the consumer resides, or the consideration flowing to the consumer is to be received or used. U.C.C. } \text{§ 1-301(b) (ALI Council Draft, Nov. 22, 1999).}\]

146. Rome Convention, supra note 27, art. 5(2)-(3).

147. It should be noted that by its literal terms, subsection 109(b)(2) only applies when a consumer contract requires delivery of a copy in tangible form. I have assumed, however, that this language does not mean that there must be a contract term addressing the issue before subsection 109(b)(2) applies, as the rationale suggests that it is intended to cover situations where in fact a tangible copy is to be or is delivered without regard to whether there is a contract term requiring such delivery. This also seems to be the only sensible interpretation. Otherwise, software purchased off the shelf containing a license that was silent on the method of delivery would not come within the rule.


149. See supra text accompanying notes 43-47. See also Nimmer on Copyright, supra note 76, § 17.11 (center of gravity approach provides less certainty and predictability than rigid general rules but its merit is that it gives the place with the most interest in the problem paramount control over legal issues arising out of a particular factual context).

connections\textsuperscript{151} to be considered by the court in determining the jurisdiction with the most significant relationship to the transaction and the parties, as well as statements about which jurisdiction’s law typically will apply.

Similarly, the Rome Convention creates presumptions as to the jurisdiction whose law normally will have the closest connection to the transaction.\textsuperscript{153} In contrast, subsection 109(b)(3) provides no textual guidelines to assist the forum in determining what jurisdiction has the most significant relationship to the transaction. Some guidance, however, is provided in the comments to section 109. Comment 4 states that the UCITA rule is similar to the rule of the Second Restatement, and that cases interpreting the Restatement are applicable.\textsuperscript{154} In addition, that comment provides a nonexclusive list of factors the forum should consider in applying the rule, which are similar to the factors contained in sections 6 and 188 of the Second Restatement.\textsuperscript{155} While these guidelines in the comment are better than no guidelines at all, they may not be very effective in making up for the lack of textual guidance. Given a forum’s natural tendency to apply its own law when it has some interest in the transaction, the lack of textual guidelines may make subsection 109(b)(3) a less effective means of taking into account the concerns of interested jurisdictions than other, more directed, center of gravity approaches, while, at the same time, creating a higher degree of

\textsuperscript{151} See, e.g., id. § 188(2).

\textsuperscript{152} See, e.g., id. § 188(3) (if place of negotiation and place of performance are in the same state, law of that state usually will apply).

\textsuperscript{153} Rome Convention, supra note 27, art. 4(2) (presumption that contract is most closely connected with the habitual residence of the party performing the characteristic performance under the contract).

\textsuperscript{154} UCITA § 109(b) cmt. 4 (2000).

\textsuperscript{155} The factors listed are:

(a) place of contracting, (b) place of negotiation, (c) place of performance, (d) location of the subject matter of the contract, (e) domicile, residence, nationality, place of incorporation and place of business of one or both of the parties, (f) needs of the interstate and international systems, (g) relative interests of the forum and other interested states in the determination of the particular issue, (h) protection of justified expectations of the parties, and (i) promotion of certainty, predictability and uniformity of result.

\textit{Id.} The only Restatement (Second) contacts not included are the Restatement (Second) section 6 factors of “the basic policies underlying the particular field of law” and “ease in the determination and application of the law to be applied.” \textit{Restatement (Second) Conflict of Laws, supra} note 2, § 6(e)(g).
uncertainty as to applicable law than is present with those approaches.

The lack of concern with certainty and predictability evidenced by subsection 109(3)(b) may be explained by a belief that the parties’ planning-related concerns in the non-electronic commerce context are adequately protected by subsection 109(a)’s broad authorization of choice of law by contract. If, however, the prediction of this Article that the nature of the “product” involved in software licenses is likely to make contractual choice-of-law provisions less effective with regard to software licenses than with regard to normal contracts is correct, then that assumption may prove unwarranted.

C. Public Policy Exception for International Transactions

Finally, UCITA subsection 109(c) contains an exception to the choice-of-law rules applicable in the absence of contractual choice (and, thus, also an exception to how the consumer contract exception to contractual choice will apply) in international cases. Subsection 109(c) provides that:

In cases governed by [the default rules of] subsection (b), if the jurisdiction whose law governs is outside the United States, the law of that jurisdiction governs only if it provides substantially similar protections and rights to a party not located in that jurisdiction as are provided under this [Act]. Otherwise, the law of the State that has the most significant relationship to the transaction governs.156

Comment 5 states that this rule applies where the default rules “result in selecting the law of a foreign country and the law of that country is substantively inappropriate because it fails to give a party protections substantially similar to those available under” UCITA.157 Although the text refers to protections similar to those under “this Act,” the comment further indicates that the reference is to “contract law,” including not only the provisions of UCITA, but also “the general contract and related equity law of the jurisdiction.”158

This provision seems best described as a public policy
exception—it allows the forum to refuse to apply the otherwise applicable law because it finds that law substantively offensive. As discussed in Part III, public policy exceptions devalue the parties' interest in certainty and predictability. Further, a public policy exception that applies only in favor of the forum also devalues the systemic interests in mutual respect and cooperation, as well as the interests of the jurisdiction whose law would otherwise apply. Therefore, particularly in the international context, where the greater diversity of law presents the forum with more occasions on which it may be tempted to refuse application, the public policy exception should be carefully circumscribed in order to avoid unnecessary uncertainty, systemic disharmony, and retaliation by other jurisdictions. Thus, for example, the public policy standard of the Rome Convention allows the forum to refuse to apply the law otherwise specified by the Convention "only if such application is manifestly incompatible with the public policy... of the forum." Further, even in the context of an authorization to apply the public policy of another jurisdiction, where systemic concerns will be favored by the provision, but certainty and predictability will still be undermined, a high standard is required. Thus, section 187 of the Second Restatement, which allows the forum to ignore the parties' contractual choice in favor of the law of the state whose law would apply in the absence of choice, provides that application of the chosen law must be "contrary to a fundamental policy of a state which has a materially greater interest than the chosen state in the determination of the particular issue." The comments to the Restatement state that:

To be "fundamental," a policy must in any event be a substantial one. Except perhaps in the case of contracts relating to wills, a policy of this sort will rarely be found in a requirement, such as the statute of frauds, that relates to formalities... Nor is such policy likely to be represented by a rule tending to become obsolete... or by general rules of contract law, such as those concerned with the need for consideration... On the other hand, a fundamental policy may be embodied in a statute which makes one or more kinds of contracts illegal or which is designed to protect a person

159. Rome Convention, supra note 27, art. 16 (emphasis added).
160. RESTATEMENT (SECOND) CONFLICT OF LAWS, supra note 2, § 187(2)(b).
against the oppressive use of superior bargaining power.161

The threshold for application of subsection 109(c), however, appears to be very low—the foreign contract law must provide “substantially similar protections and rights to a party not located in that jurisdiction” as does UCITA, or that law will not apply.162 Just as UCITA’s comments attempt to provide the guidelines for determining the most significant relationship missing from its text, the comment to subsection 109(c) attempts to supply a more appropriate standard for the application of subsection 109(c). Comment 5 states that: “[C]ourts should alter the basic rule only in extreme cases. It does not suffice merely that the foreign law is different. The difference must be substantial and adverse.”163 This standard, however, does not supplement the text; instead, it seems to directly contradict it. It suggests that the standard is “substantially different and adverse,” while the textual standard is “not substantially the same.”

The comments provide little rationale for subsection 109(c). They describe subsection 109(c), somewhat surprisingly, as a provision providing “clarity on what law applies in the absence of an enforceable contract term.”164 Subsection 109(c), however, provides just the opposite of clarity. Public policy exceptions devalue the interest in certainty and predictability in favor of the forum’s interest in controlling the use of its courts to enforce substantively offensive laws of another jurisdiction. Subsection 109(c) is no exception. Although UCITA applies a bright line default rule in cases of electronic delivery, the existence of subsection 109(c) means that the parties to an international transaction cannot rely on that rule in planning their transaction. Unless the law of the foreign licensor’s jurisdiction is “substantially similar” to UCITA with regard to the licensee’s rights, that law will not apply and the parties will be left with the uncertainty of a most significant relationship test to pick the U.S. jurisdiction whose law will apply. Similarly, although subsection 109(c) does not apply directly to the parties’ contractual choice of law, it will apply to override that choice.
in consumer contracts because of the subsection 109(a) mandatory rules exception, which defers to the default rules of subsections 109(b) and (c). Thus, in international consumer software licensing, a non-U.S. licensor will not be able to rely on its contractual choice-of-law provision to obtain certainty and predictability either. Therefore, the cost-reduction philosophy that underlies the electronic commerce rule of subsection 109(a) is undermined by this provision.

The provision also undercuts the UCITA provisions that otherwise give some deference to the expectation interests of the parties and the concerns of interested jurisdictions. In cases of tangible delivery, the bright line default rule for consumer contracts will not apply if the software is delivered to another country with laws not substantially similar to UCITA, thus undermining not only the certainty that rule would otherwise provide, both as a default rule, and as a mandatory rules exception to the parties' contractual choice of law, but also the concern it gives to expectation interests and the interests of the jurisdiction in which the software is delivered. Outside of the consumer area, the law of the jurisdiction with the most significant relationship to the contract will not be applied, despite the fact it has been found to be the most interested jurisdiction, simply because its law is not substantially similar to UCITA.165

Subsection 109(c) is not on its face either a forum-favoring or a UCITA favoring provision.166 If the law chosen is rejected, then "the law of the State that has the most significant relationship to the transaction governs." That state will not necessarily be the forum, which means that it may not necessarily be a state that has enacted UCITA. Instead, the state with the most significant relationship might apply the common

165. It might be argued that the purpose of subsection 109(c) is to protect the party not located in the foreign jurisdiction from the application of substantively unfavorable law. This purpose is not supported by the text—which read literally would deny application of law that gave that party substantially more rights or protections as well as less—but arguably might be supported by the comment which indicates that the difference has to be "adverse." If this is the purpose, it is not served well, for the law that applies instead of the chosen law will only by happenstance be one more favorable to the party not located in the foreign jurisdiction whose law would otherwise apply.

166. Cf. U.C.C. § 1-105(1) (adopting a forum-favoring rule by providing that, in the absence of a choice-of-law agreement, "this Act applies to transactions bearing an appropriate relation to this state").
law or U.C.C. Article 2 to the transaction, which means that, depending on the particular issue involved, the law of the U.S. jurisdiction ultimately applied might itself not provide substantially similar protections and rights to those contained in UCITA.

Under either of two assumptions, however, subsection 109(c) could be viewed as a UCITA favoring provision as applied. First, if one assumes that the forum usually will choose its own law by selecting itself as the U.S. jurisdiction with the most significant relationship, then the provision would in practice lead to the application of UCITA. Second, if all of the states adopted UCITA as a uniform law, then the reference to the law of the state with the most significant relationship would result in application of UCITA. Neither of these assumptions, however, seems sufficient to form the basis for a choice-of-law rule that will operate with any degree of predictability to apply UCITA in international transactions.\textsuperscript{167}

While the benefits to be derived from subsection 109(c) seem uncertain at best, several features of subsection 109(c) make it very troubling from a systemic perspective. First, it only applies to international transactions, even though its standard requiring substantial similarity could apply to differences between UCITA and non-UCITA U.S. jurisdictions. Second, because that standard is so low, and the provision appears to be mandatory, it will deny application of the law of the jurisdiction the default rules suggest is the most appropriate jurisdiction in a considerable number of cases, unless the courts choose to follow the contradictory, but more restrained test of the comment. Third, because it directs the forum to then apply the law of the U.S. jurisdiction with the most significant relationship, even though that law too may not be substantially the same as UCITA, it sends the unfortunate, and, no doubt, unintended message that any U.S. law, no matter what its substantive content, is better than a foreign law not substantially similar to UCITA. By ignoring the interests of interested jurisdictions and the systemic values of mutual

\textsuperscript{167} First, one must assume that the forum will apply its choice-of-law rules in good faith and that, therefore, those rules will sometimes lead to application of the law of another state. Second, although UCITA eventually may be adopted in all states, as of April 12, 2000, UCITA had been adopted only in Virginia and Maryland.
respect and cooperation, subsection 105(c) seems almost custom-made to invite retaliation by foreign fora asked to honor the parties’ choice of U.S. law. The extremely insular philosophy it seems to project thus has the potential to make it a very disruptive rule within the international choice-of-law system.

D. UCITA’s Balancing of Interests

How do the choice-of-law rules of UCITA balance the various interests implicated by choice-of-law decisions? High priority is given to the planning-related interests of the parties, and particularly the licensor’s interest in certainty and predictability in Internet transactions, at least if the licensor is a U.S. licensor. As discussed above, the primary goal of the choice-of-law rules applicable to Internet transactions seems to be to reduce to the absolute minimum the choice-of-law costs of the licensor engaged in Internet transactions, through a combination of a broad contractual choice-of-law provision and a bright line default rule selecting the law of the licensor’s jurisdiction in the absence of choice. The other interests given high priority in the choice-of-law rules applicable to Internet transactions are those of the forum. The forum can override terms of the license that conflict with the public policy expressed in its intellectual property laws, although those terms would be valid under the law selected by the choice-of-law provision in the license. The forum also can refuse to enforce the choice-of-law provision altogether if it finds it unconscionable. Further, the forum can refuse to apply the default rule pointing to the law of the licensor’s jurisdiction in an international transaction, unless that law provides substantially similar protections and rights to a party (in the case of electronic delivery, almost by definition, the licensee) not located in that jurisdiction.

On the other hand, the expectation and fairness interests of parties for whom it is not efficient to engage in choice-of-law planning, as well as the interests of other jurisdictions are downplayed. While section 109 authorizes the forum to deny enforcement to provisions that violate the public policy embodied in its intellectual property laws, no similar provision authorizes consideration of the intellectual property policies of other interested jurisdictions, either as mandatory rules or as fundamental public policy. Finally, last, and least, in the hierarchy of interests valued by the UCITA choice-of-law provisions are
the interests of the international choice-of-law system. Not only is there little in the rules of section 109 to encourage mutual respect and cooperation, but the public policy exception of subsection 109(c) seems to affirmatively invite retaliation by other jurisdictions.

Outside of the area of electronic delivery of software, the choice-of-law rules generally follow the hierarchy described above, but with some significant differences in the particular weight given the respective interests. The interests of the forum still are highly valued. Its ability to deny enforcement to the parties contractual choice-of-law provision for unconscionability, to deny enforcement to particular terms based on inconsistency with its intellectual property law policy, and to refuse to apply the law of another nation does not differ. The lack of regard for systemic concerns also remains constant in the physical delivery context. On the other hand, while planning interests are still highly valued through the broad contractual choice-of-law provision, outside the area of electronic delivery of software, the contractual choice of law is unenforceable in consumer contracts to the extent that it would vary a mandatory rule of the jurisdiction in which the copy of software was delivered to the consumer. Thus, the expectation and fairness interests of one significant segment of parties for whom it is inefficient to take choice-of-law planning into consideration are valued more highly in relation to the planning interests of licensors outside of the electronic commerce context. This provision also means that the mandatory consumer rules of an interested jurisdiction will be honored despite a contrary choice of law, and, in the absence of an enforceable choice-of-law provision, the law of that jurisdiction will be selected to govern the transaction. In addition, the default rule applying outside of the consumer context authorizes the court to take the interests of other interested jurisdictions into account in determining the jurisdiction with the most significant relationship to the transaction, although the lack of textual guidelines makes the parameters of this authorization less than clear.

Consider our decompilation hypothetical one last time. The copyright law of Jurisdiction A provides that licensees may reproduce the software's object code and translate its form when the decompilation is necessary to achieve interoperability, and that this right to decompile cannot be excluded by contract. The software license prohibits reverse-
engineering for any purpose. The software license contains a choice-of-law clause choosing the law of Jurisdiction B. Contract provisions prohibiting reverse-engineering are consistent with the copyright law of Jurisdiction B. Both licensor and licensee are nationals of Jurisdiction A. The licensor files suit in Jurisdiction B for breach of the license after the licensee decompiles the software in Jurisdiction A. Should Jurisdiction B apply its own law pursuant to the choice-of-law clause and enforce the absolute prohibition on reverse-engineering? Or should it recognize and enforce the mandatory rule of Jurisdiction A prohibiting this type of contract provision? The discussion of this hypothetical in Part IV suggested that in this case the interests of Jurisdiction A, the only jurisdiction with a significant interest, and the interests of the choice-of-law system should outweigh the parties' planning interests. Jurisdiction B should honor the mandatory rule of Jurisdiction A.

This may not be the result if Jurisdiction B follows choice-of-law rules like those in UCITA section 109. Subsection 109(a) directs the court to apply the law chosen by the parties in their license, unless that law is contrary to the intellectual property policies of Jurisdiction B. There is no provision authorizing consideration of other interests outside of the consumer contract context. Further, even if the license were a consumer contract, the law of Jurisdiction A still may not be applied. Although subsection 109(a) directs application of the mandatory "rules" of the jurisdiction that would be chosen by the default rules, the clear import of the provision is that the reference is to consumer protection rules. Thus, although the law of Jurisdiction A probably would apply under the default rules, one would have to argue that the rule against waiving the right to decompile is a consumer protection rule before the mandatory rules exception would apply.

It should be noted, however, that in a real situation involving these facts, the provision preventing decompilation nevertheless might not be enforced by a jurisdiction applying the UCITA choice-of-law rules. This result would be reached, however, not because enforcing the provision would violate the mandatory rules of Jurisdiction A, but rather because it would violate the intellectual property policy of Jurisdiction B. Jurisdiction B will in a real situation be a U.S. jurisdiction, and U.S. intellectual property law allows a licensee to decompile
software in order to achieve interoperability.\textsuperscript{168} The U.S. forum thus may apply the fundamental public policy exception of UCITA subsection 105(b) to refuse to enforce the contract provision, if it finds that a contract prohibition on decompilation in a situation where decompilation is allowed under U.S. copyright law would violate it's fundamental public policy.\textsuperscript{169} Thus, while section 109 probably would not allow the interests of another jurisdiction to outweigh the parties' planning interests, it would allow the forum's interests to do so.

UCITA may rely too heavily on contractual choice of law to provide certainty and predictability with regard to choice of-law rules applicable to software licenses. As UCITA's own choice-of-law rules demonstrate, the important policy considerations involved with regard to intellectual property are likely to cause a forum to use public policy and/or mandatory rules to get around the chosen law when it differs significantly from the forum's policies. Concomitantly, UCITA does not pay enough attention to sovereign and systemic interests, which are implicated to a greater extent in the area of software licensing than they are with regard to other types of contracts. Yet, in this area, in which the private ordering regime of contract and the strong public policies of intellectual property intersect, sensitivity to the interests of other jurisdictions and the international choice-of-law system as a whole may be the only way ultimately to obtain an acceptable degree of certainty and predictability both for the parties and for the system.


\textsuperscript{169} UCITA § 105(b) (2000). Comment 3 to section 105 states that the decompilation policy "may outweigh a contract term to the contrary." Id. § 105(b) cmt. 3.
VI. CONCLUSION

It has been suggested that the job of choice-of-law rules is:

[T]o provide an intelligible and principled basis for choosing a substantive rule . . . over the competing rule of another place. Rules compete when their application would lead to conflicting results and when the relation of each place to the controversy is such that it is plausible for the rule of either place to govern. Conflicts law must legitimate the choice. It must explain why rejection of one law in favor of another is right.170

This Article suggests a framework for thinking about what choice-of-law regime will "legitimate the choice" of a particular jurisdiction's law over that of another with regard to software licenses, grounded in a consideration of the interests effected by choice-of-law rules, and the characteristics of the "commodity" of intellectual property. It suggests that in thinking about the issue of choice-of-law rules for the contractual aspects of software licenses, the appropriate starting point is to ask, in light of the nature of software licenses, what is the appropriate balance to strike among the interests effected by the rules chosen? It is hoped that this framework may be of assistance both to those attempting to design choice-of-law rules in this area, and to the courts in applying their general contract choice-of-law rules to this special type of contract.

The ideal solution to the choice-of-law question with regard to software licenses obviously would be for all jurisdictions to have the same substantive law. Then, the choice-of-law rules would not matter. Given the strong public policies embodied in the intellectual property rules of the various nations that define the "product" in software licenses, however, total substantive agreement may be quite difficult to achieve. A second-best solution would be to reach agreement on a set of uniform choice-of-law rules. For the same reason, however, complete agreement on a common set of choice-of-law rules may be difficult as well.

Perhaps the best that can be hoped for at present is sensitive application of each forum's choice-of-law rules, in light of

the interests of the parties, the interested jurisdictions, and the interests of the international choice-of-law system, with the goal of avoiding serious conflict on a day to day basis and, perhaps, ultimately facilitating the organic development of at least some widely-accepted rules. This, too, however, will be no easy task. As contracts, software licenses implicate the normal contract-related concerns. Sensitivity must be given to the planning-related interests of parties who rely on the application of a particular law in planning their transactions, while protecting the expectation and fairness interests of parties for whom it is inefficient to engage in choice-of-law planning. In addition, the interests of jurisdictions in applying their mandatory rules, such as those related to consumer protection, must be considered. As intellectual property transactions, however, software licenses implicate another set of interests. The strong public policies, expressed by an interested jurisdiction's particular balancing of the need to encourage innovation while protecting free access to information embodied in its intellectual property laws, must be considered. Finally, as international transactions, the interests of the international choice-of-law system as a whole also must be kept in mind.

The goal seems clear—the creation of choice-of-law rules that will allow private ordering by the parties, while respecting their expectation and fairness interests, the public policy concerns of interested jurisdictions, and the need for mutual respect and cooperation among all jurisdictions in order to foster systemic harmony, and, ultimately, uniform systemic rules. The devil is in the details.