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Applicable Law: An Alternative Proposal for International Regulation - The Max Planck Project on International Jurisdiction and Choice of Law

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APPLICABLE LAW: AN ALTERNATIVE PROPOSAL FOR INTERNATIONAL REGULATION—THE MAX-PLANCK PROJECT ON INTERNATIONAL JURISDICTION AND CHOICE OF LAW

*Annette Kur**

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I. INTRODUCTION AND BASIC POLICIES

It has been said that, when confronted with new technological developments, we tend to overestimate their short-term effects, whereas the long-term effects are rather underestimated.¹ It seems to me that this is an excellent motto also for the topic considered here, i.e., how the increase in the number of IP conflicts having transborder or even global implications influences the traditional rules of private international law. While it might seem at first glance that internet-spurred developments compel a total devaluation of traditional choice of law rules founded on the territoriality principle, it might amount to an overreaction if the system as a whole is set aside. While it appears trite to say that changes must be accepted in order to accommodate new developments, what is genuinely at issue is how far these changes should go and to what extent they will affect the very policies on which the present system is founded.

As will be set out in more detail below, the proposals submitted here for further discussion adopt a rather cautious approach in that respect. Their basic philosophy is that the old rules on territoriality and—as the choice of law principle echoing that rule—*lex protectionis*² should be observed as faithfully as possible even in the age of cyberspace. Exemptions are accepted for two reasons only: first, if and to the extent that this is based on an agreement between the parties, provided that such an agreement is acceptable under general policy considerations (party autonomy exemption); and, second, if and to the extent that abiding by a strict application of the territoriality/*lex protectionis* principle is impossible in the sense that it would amount, for all practical matters, to denial of justice (legal efficiency exemption).

1. See, e.g., JÜRGEN BECKER & THOMAS DRIER, URHEBERRECHT UND DIGITALE TECHNOLOGIE [COPYRIGHT AND DIGITAL TECHNOLOGIES] 123 (1994).

2. There is, of course, a difference between a strictly territorial approach towards intellectual property protection and the *lex protectionis* principle. For instance, the latter could be satisfied by a system applying the law of a given country with regard to persons who are subject to the sovereign power of that state, irrespective of the territory on which they are located.

This approach is founded on a number of policy reasons. Most important among them is the notion that the territoriality and *lex protectionis* principles are best suited to safeguard national legislatures' freedom to regulate intellectual property matters having an impact on their territories (to the extent that this complies with international obligations, and absent full harmonisation of substantive IP law). Moreover, as was said before, current discussions tend to overemphasize the impact of internet-related conflicts, and to ignore the risk that the application, in a broad and general manner, of rules developed with a specific view to conflicts in cyberspace may have detrimental effects outside that area.

As background to these considerations, the following scenarios are distinguished. The first of these concerns cross-border conflicts of a traditional type, i.e., the typical case of infringing goods being manufactured in one country and being sold, or otherwise distributed, in one or several other countries. Although not the focus of general attention, this scenario still constitutes the most common setting by far for presently occurring transborder or multi-state infringements, particularly in regard to industrial property. Even in the copyright context, cross-border conflicts of the traditional kind still play a certain role when books or other tangible objects incorporating protected works are copied abroad or when infringement is caused by terrestrial transmission of radio or television programs into a neighboring country.³

The second scenario concerns conflicts caused by content posted on the internet, resulting in communication which is, technically, not confined to a certain place. Nevertheless, IP conflicts eventually resulting therefrom are not necessarily global or ubiquitous in the sense that they cannot be located in one or several particular territories. A typical example for such a situation is provided by the use of trademarks or other distinctive signs as domain names or in the text displayed on an internet website. Here, just like in the first scenario, the con-

3. See, e.g., *National Football League v. Prime Time 24 Joint Venture*, 211 F.3d 10 (2d Cir. 2000); for German law, see 35 INT'L REV. OF INTELL. PROP. AND COMP. L. 977 (2004) (discussing German Federal Supreme Court decision *Felsberg Transmitter*, decided Nov. 2002, in which defendant was broadcasting from Germany into France).

flict is typically confined to the country or countries where the same or similar sign exists. Nevertheless, the situation may give rise to different legal problems. Indeed, an appropriate solution in these cases can only be found if due account is taken of the international implications of the conflict, regarding both the finding of an infringement occurring in a particular territory and the impact sanctions eventually imposed may have on the sanctioned party's ability to carry out legitimate business in other countries.

In the third scenario, the conflict cannot be defined as occurring in specific territories only. The main example of this situation is furnished by internet communication, the content of which, at least as a matter of principle, is legally protected in (practically) all countries of the world. For structural reasons, this hypothesis is realistic mainly or even exclusively for copyright, where the right practically comes into universal existence with the act of creation, and can therefore be the object of, literally, worldwide misappropriation. In such a situation, it is clearly impossible to determine, let alone to verify and apply, all the national laws that may be of relevance when following a traditional approach. It is with a view to those situations that rules deviating from the traditional principle of *lex protectionis* are most clearly needed.

II. THE MAX-PLANCK PROPOSAL

A. *Aims and Current Status*

The proposals to be presented in the following are the not yet fully grown fruit of the work undertaken by a group first established in 2001 at the Max-Planck Institute for Intellectual Property, Competition and Tax Law, in Munich (MPI). The formation of that group was motivated by the growing importance of issues concerning international jurisdiction and choice of law in the age of globalization. The efforts gained further momentum when it became obvious that the ambitious plans of the Hague Conference for Private International Law to conclude a comprehensive Convention on jurisdiction and enforcement of foreign judgments in civil and commercial matters in the framework of the Hague Conference of Private International

Law (Draft Hague Jurisdiction Conference or DHJC) would not lead to an easy success.⁴ Paralleling the efforts initiated at about the same time by Rochelle Dreyfuss and Jane Ginsburg—which subsequently developed into the present ALI project—the MPI group aimed to provide more scientific input in this matter to help fill the gap that would be left by the Hague Conference abandoning or substantively limiting their original plans regarding intellectual property matters.

Against this backdrop, it appeared natural to start by elaborating a proposal for a special provision on international jurisdiction in IP proceedings that might, at a later stage, become part of a future, comprehensive Convention of the type originally envisaged by the Hague Conference. The proposal was finalized in summer 2003, when it was presented and discussed at a conference marking the end of the first phase of the MPI project.⁵

The work presently undertaken in the working group is impacted by the following factors. First, contrary to the optimistic note on which the project was started in 2001, it has now become clear that it is utterly unrealistic to assume that the Hague Conference project of an international Convention on jurisdiction and enforcement of judgments in private and commercial matters will ever (or at least in the foreseeable future) develop into maturity.⁶ For the MPI project, this means that it no longer makes any sense to phrase the proposed rules on international jurisdiction in IP matters in a way that they could be inserted, as a specific IP provision, into the legal framework

4. For a more explicit account of this background, see Annette Kur, *Jurisdiction and Enforcement of Foreign Judgments - The General Structure of the MPI Proposal*, in *INTELLECTUAL PROPERTY AND PRIVATE INTERNATIONAL LAW, HEADING FOR THE FUTURE* 21, 22 (Josef Drexl & Annette Kur eds., 2005) [hereinafter *HEADING FOR THE FUTURE*].

5. The text of the proposal, as well as the papers delivered at the conference, are published in *HEADING FOR THE FUTURE*, *supra* note 4, 307 app.

6. The best one can hope for is that it will be possible to conclude a Convention on jurisdiction clauses in B2B contracts (Draft Hague Contracts Convention or DHCC), as is presently proposed. For the latest report on the proposed Convention, see *HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW, PRELIMINARY DRAFT CONVENTION ON EXCLUSIVE CHOICE OF COURT AGREEMENTS* (Preliminary Draft No. 26, Dec. 2004), available at http://hcch.e-vision.nl/upload/wop/jdgm_pd26e.pdf (last visited Apr. 9, 2004) [hereinafter *HAGUE PRELIMINARY CONVENTION*].

of a comprehensive jurisdiction Convention. Instead, it will be necessary to re-edit them as a body of separate, stand-alone rules, most probably in the form of “principles” similar to those that are currently elaborated in the framework of the ALI project.

Second, again in accordance with the ALI project, it was decided that it hardly makes sense to concentrate on jurisdiction rules alone. Jurisdiction rules are closely, and often inseparably, linked with choice of law issues. Therefore, in the second phase of the MPI project, the group will also develop provisions dealing with applicable law. In order to broaden and strengthen the basis for this work, and in order to increase the impact the project will have not only among intellectual property lawyers, but also within the academic community dealing with private international law, the new phase of the project is conducted jointly with the Max-Planck Institute for Foreign and International Civil Law and Private International Law in Hamburg.⁷ In addition, the working group will be reinforced by academics from other European countries.⁸

Just like the ALI project in its present stage (although on a much smaller scale) the MPI project for the time being is a purely academic endeavour which has not yet been discussed outside academia, i.e., by interested circles in a wider sense or by political bodies. Of course, it is hoped that, in the long run, the project will not remain confined to the ivory tower but will, at some time, gain more practical relevance.

The account given below briefly describes the main features of the jurisdiction aspect of the project and will then focus on choice of law. However, as the work undertaken in the latter field has just started, the contribution will only address some basic issues without going into much detail.⁹ Furthermore, it

7. A joint conference with international participation was arranged in March 2004 in Hamburg, the outcome of which was documented in *INTELLECTUAL PROPERTY IN THE CONFLICT OF LAW* (Jürgen Basedow et al. eds., 2005) [hereinafter *IP CONFLICT OF LAW*].

8. At present, Paul Torremans, Jean-Christophe Galloux and Graeme Dinwoodie have agreed to participate in the working group.

9. Until now, the deliberations about applicable law have been concentrated on the general provisions concerning infringements. Further work will also deal with the law applicable to determine initial title, specific rules concerning contractual relationships, etc.

must be emphasized that the results are by no means finalized, but may be changed and refined as the work continues.

*B. Jurisdiction*¹⁰

The jurisdiction proposal by the Max-Planck group was mainly inspired by, and largely follows the structure of, the preliminary draft Jurisdiction Convention published in 1999 by the Hague Conference for Private International Law (DHJC). The DHJC, in turn, was based on the concept of the Brussels Convention on Jurisdiction and Enforcement in Civil and Commercial Matters. Against this backdrop, there is reason to say that the Max-Planck jurisdiction proposal, at least to some extent, reflects typical continental European patterns of thinking. Most prominent among these is the effort to precisely determine the competent forum under legal rules, without leaving courts too much discretion to decide whether they are the appropriate forum in which a given case should be litigated. Another major aim underlying the proposal, more universal in its nature, concerns the balance of powers between the parties; strategic advantages provided by the procedural rules should be distributed evenly between them.

Based on these objectives, the main features of the MPI jurisdiction proposal can be summarized as follows. Proceedings concerning the infringement of an intellectual property right can be conducted (a) at the place of defendant's domicile, (b) the place where the right is allegedly infringed, or (c) at the place chosen by the parties in a valid agreement. Courts in the defendant's forum are also competent, in principle, to adjudicate infringements occurring abroad, whereas a court whose competence is solely founded on the fact that the alleged infringement occurs in that country is competent only to exercise jurisdiction with regard to its own territory. Exemptions from the latter rule are only accepted, under certain conditions, for claims against multiple defendants, and in cases of infringement caused by internet-related behavior. In the latter case, the ex-

10. For a more comprehensive account of the Max-Planck jurisdiction proposal, see Kur, *supra* note 4, at 21; see also Annette Kur, *Principles Governing Jurisdiction, Choice of Law and Judgments in Transnational Disputes: A European Perspective*, 3 CRI 65 (2003) [hereinafter Kur, *European Perspective*].

emption only applies if an essential part of the infringement occurs in the forum state and if the activities of the defendant are not directed at the market in his or her home country, and do not have a substantial effect there.

Proceedings which determine the validity or registration of an intellectual property right with effect *erga omnes*¹¹ must be conducted before the courts in the country of registration (or protection). If, on the other hand, invalidity is raised as a defense in infringement proceedings or otherwise comes up as an incidental matter, this does not affect the competence of other courts. However, the decision then becomes only legally effective between the parties.

C. Choice of Law

1. Background and Existing Proposals

a. Europe: The Rome II Proposal

European legislature is currently struggling with plans to introduce two regulations dealing with issues of private international law. One will cover contractual obligations and is based on the Convention applicable to contractual obligations (the so-called Rome Convention). The other (Rome II)¹² is more interesting for present purposes as it concerns non-contractual obligations, i.e., torts and delicts, which, as a matter of principle, also apply to intellectual property infringements. However, the first preliminary draft, published in 2002, did not provide for any special rules on intellectual property. Instead, IP conflicts would have had to be treated under Article 3, the general provision applying to all unspecified kinds of torts. As a general rule, it was established in Article 3.1 of the preliminary draft that the governing law should be the law of the country where the “loss is sustained, irrespective of the country or countries in which the harmful event occurred.” This evoked severe criticism from the IP community, as it was held practically unani-

11. Meaning that the outcome will have absolute effect, i.e., the right will be declared valid or invalid vis-à-vis everyone.

12. See generally Proposal for a Regulation of the European Parliament and the Council on the Law Applicable to Non-Contractual Obligations (“ROME II”), COM (2003) 427 final [hereinafter Rome II].

mously that Article 3.1 was inappropriate for intellectual property conflicts. It was thus decided that a special rule on intellectual property matters should be inserted into the final proposal, which came out in 2003. The new proposal, based on a suggestion made by the MPI for Foreign and Private International Law in Hamburg, contains the following clause in Article 8: "1. The law applicable to a non-contractual obligation arising from an infringement of an intellectual property right shall be the law of the country for which protection is sought."¹³

The proposed formulation reflects the country of protection rule (*lex protectionis*). It has been argued in the literature that application of the *lex protectionis* principle, as the basic choice of law rule regarding intellectual property infringement,¹⁴ is mandated by the national treatment rule embedded in the international conventions on IP¹⁵ and is explicitly set out in Article 5.2, which is the second sentence of the Berne Convention.¹⁶ On the other hand, controversies have never ceased about the legal nature and exact meaning of those international rules. If the proposed article should become European law,¹⁷ it would have the beneficial effect of putting an end to such quarrels by clarifying beyond doubt that the country of protection principle is a genuine rule of private international law to be applied in

13. Paragraph Two concerns community rights and is of no relevance for our topic.

14. In contrast to infringement, the country of protection rule is not generally accepted, e.g., with regard to initial ownership of intellectual property rights.

15. See, e.g., Paris Convention for the Protection of Industrial Property of March 20, 1883, revised, Stockholm, July 14, 1967, 25 U.S.T. 1583 [hereinafter Paris Convention]; Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, revised, Paris, July 24, 1971, 25 U.S.T. 1341 [hereinafter Berne Convention].

16. Berne Convention, *supra* note 15, Art. 5(2). The question might therefore be posed whether it is useful at all to include such a rule in a European legal instrument, given that its effects will hardly differ from what is generally held to apply anyhow. See, e.g., Josef Drexler, *The Proposed Rome II Regulation: European Choice of Law in the Field of Intellectual Property*, in *HEADING FOR THE FUTURE*, *supra* note 4, at 151–76.

17. At the time of writing this (December 2004), it is still unclear in which form, if at all, the Rome II proposal will become European law. Several proposals for re-writing individual provisions, among them Article 8, have been made in the process. However, none of these has been submitted to Parliamentary vote, nor has the Commission promulgated a new version of the text proposed in July 2003.

intellectual property conflicts. Furthermore, it would help to avoid misunderstandings ensuing from the somewhat ambiguous wording of the Berne Convention by clearly pointing to the country *for which* protection is sought, rather than using the term (as is employed in the Berne Convention) “country *where* protection is claimed.”¹⁸

With regard to the scope of the country of protection rule, proposed Article 8 is confined to *infringements*, i.e., it has no direct bearing upon matters like existence and validity, let alone initial ownership, of the right. It is also worth noting that neither Article 8 itself nor other parts of the proposed Regulation specifically addresses situations where the number of potential countries of protection becomes too numerous to be considered simultaneously, as might typically happen with infringements committed in cyberspace.

b. The Draft ALI Principles

The rules proposed in the ALI project “Intellectual Property: Principles on Jurisdiction and Choice of Law in Transborder Disputes” in their presently available form (as of February 2004) adopt a different point of departure.¹⁹ Whereas the European proposal establishes one and the same rule—*lex protectionis*—for all kinds of intellectual property rights, the draft ALI principles make a fundamental distinction between rights arising out of registration, and other intellectual property rights.²⁰ With regard to the former, the “law applicable to determine the existence, the validity and scope of those rights and remedies for their infringement is the law of each country of

18. Berne Convention, *supra* note 15, Art. 5(2). The phrase “country *where* protection is claimed” might relate (a) to the country where the court before which remedies are claimed is situated, and (b) to the country where the alleged infringement has taken place. Unfortunately, it appears that the wish was raised in Parliament to change the wording in proposed Article 8 so that it refers to the country “where the harmful event occurs.” Although this might not lead to substantive changes, it would still be regrettable as one of the main advantages of the rule would be lost.

19. See AMERICAN LAW INSTITUTE, INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES (Preliminary Draft No. 2, 2004) (on file with Brooklyn Journal of International Law) [hereinafter ALI PRINCIPLES].

20. See ALI PRINCIPLES, *supra* note 19, § 301.

registration,”²¹ whereas for other intellectual property rights, the law applicable to existence and scope, etc., would be the “law of any country where the allegedly infringing act has or will significantly impact the market for the work or subject matter at issue.”²² Furthermore, with regard to personal rights, the applicable law is the law of the country where the damage occurs.²³

In addition to the basic rule, the draft Principles provide for special rules to be applied in “exceptional cases,” e.g., when the case is more closely connected with the law of another country than the country of registration or market impact, where parties have a pre-existing relationship, when it is unduly burdensome for the court to decide on the basis of several other countries’ laws, or when those laws cannot be ascertained.²⁴ In those instances, the court shall apply the law of the country that has the closest connection with the dispute, as shall be determined with the help of several factors listed in the draft provision.²⁵

2. Evaluation and Own Proposal

a. Should Lex Protectionis Be Abandoned as the Basic Rule?

i. General Approach: Registered Rights

The above comparison between Rome II and the draft ALI principles raises the question of whether *lex protectionis*, the basic rule for choice of law regarding the infringement and existence of all intellectual property rights alike (as in Rome II), should be abandoned in favor of a split approach towards registered and unregistered rights (as in the draft ALI principles). Regarding *registered* rights, the impact of this question may appear minimal or negligible. Given the fact that rights arising out of registration *per definitionem* can only (validly) ensure protection in the country where registration has been effected, the result will regularly be the same. On the other hand, referring to the country of registration instead of the country of pro-

21. *Id.*

22. *Id.*

23. *Id.*

24. See ALI PRINCIPLES, *supra* note 19, § 302.

25. See *Id.* § 302(2).

tection would eliminate any possibility of arriving at a uniform concept that would apply to all types of intellectual property rights, as might be provided by employing the *lex protectionis* rule.²⁶

Moreover, and more importantly, the phrase “country for which protection is sought” has specific merits which are lost when reference is made instead to the country of registration. In a much clearer way than the latter, the former phrase highlights the fact that the court, guided by the plaintiff’s claims, must actually identify and specify the country or countries in regard to which the verdict shall become legally binding. This aspect is particularly important with regard to prohibitive injunctions that typically account for the large majority of remedies imposed in lawsuits concerning intellectual property conflicts.²⁷ In a world where decisions having extraterritorial effects become more and more frequent, but also potentially more contentious, courts as well as the parties involved should not be given too much leeway to claim and issue sweeping decisions in matters involving multiterritorial IP infringement without a clear statement indicating their intended territorial scope.

It is therefore proposed that instead of abandoning the phrase “country for which protection is sought,” or replacing it by the less illustrative reference to the country of registration, the phrase should, rather, be reinforced and taken seriously. Especially in regard to prohibitive injunctions, the plaintiff should be required to explicitly declare the countries in which it actually seeks protection. In addition, courts should explicitly name the countries in which the verdict is binding, meaning that the injunction shall become effective with respect to infringements which are (have been/are threatening to be) carried out in, and/or are directed to, that country.²⁸

26. Applying one and the same basic rule for all intellectual property rights alike is certainly not an asset in itself that must be preserved by all means. On the other hand, it is also not easily understood why the common approach should be relinquished without pertinent reasons.

27. See Roger D. Blair & Thomas F. Cotter, *An Economic Analysis of Damages Rules in Intellectual Property Law*, 39 WM. & MARY L. REV. 1585, 1589 (1998) (noting that “injunctive relief [is] the principal remedy available against those who infringe intellectual property rights.”).

28. It adds to the complexity of this issue that different rules may apply in different countries as to whether it is the duty of the parties (primarily of the plaintiff) to specify expressly the country or countries for which protection is

The process of defining the “country for which protection is sought” can pose intricate questions, particularly with regard to complex actions consisting of several elements taken out of, or being connected to, a number of different states. However, by insisting on an obligation to clarify this matter before resolving the question as to which law is to be applied in the proceedings, the parties as well as the courts will be forced to embark upon a thorough analysis of the issue’s territorial aspects. Such clarification should be regarded as a virtue rather than a drawback, as it helps to raise awareness of international implications inherent in a given conflict.

ii. Unregistered Rights

With regard to *unregistered* rights, the draft ALI principles refer to the law of the country or countries where the market is substantially impacted by the allegedly infringing act.²⁹ Submitting that this is meant to be more than, and different from, a mere explication of what *lex protectionis* means with regard to unregistered rights, the motives for abandoning the traditional rule must be questioned. The following reasons might account for this move. First, this could reflect the approach taken in Article 3, the general rule in the proposed Rome II Regulation, which makes reference to the law of the country where the effects of a tortious act are felt (the “European” argument).³⁰ Second, this might be an attempt to ensure that countries are left out of consideration when determining the law applicable to an infringement allegedly occurring abroad if the act did not have any, or only insignificant, market effect in the respective territory or territories (the “lacking market impact” argument). With regard to the first “European” argument, it is important to

sought, or whether that is an issue to be considered and decided by the court *sua sponte*. These matters remain to be regulated by national procedural law and traditions. See Daniel J. Gervais, *The Internationalization of Intellectual Property: New Challenges from the Very Old and the Very New*, 12 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 929, 942 (2002).

29. See ALI PRINCIPLES, *supra* note 19, § 301.

30. This explanation was given by François Dessemontet during the joint MPI/MPI conference in Hamburg, March 2004. See IP CONFLICT OF LAW, *supra* note 7. As was pointed out above, the general rule in Article 3 is no longer of direct relevance for intellectual property in the proposed Rome II Regulation as it stands now.

note that pointing towards the (future) situation in Europe no longer makes for a convincing case against maintaining *lex protectionis* with regard to intellectual property conflicts. As was mentioned above, the original concept of the proposed Rome II Regulation, which indeed had established Article 3.1 with its reference to the country where losses are sustained³¹ as the general rule encompassing *inter alia* intellectual property matters, was subsequently changed by the introduction of a special rule on intellectual property infringement,³² for the very reason that the general rule was considered inappropriate for that field.

The “lacking market impact” argument—that the law of certain countries should be left out of consideration if the harmful effects accruing there are insignificant—is certainly plausible. However, it is rather puzzling that a rule taking account of that aspect should only be inserted with regard to unregistered rights. The same problems could, and in practice frequently will, also arise with regard to registered rights, in particular with regard to trademarks. This aspect will be treated more thoroughly in the following section.

31. The formulation of Article 3 in the present Commission proposal has been changed vis-à-vis the preliminary draft. It is now as follows:

Article 3 - General rule

1. The law applicable to a non-contractual obligation shall be the law of the country in which the damage arises or is likely to arise, irrespective of the country in which the event giving rise to the damage occurred and irrespective of the country or countries in which the indirect consequences of that event arise.

2. However, where the person claimed to be liable and the person sustaining damage both have their habitual residence in the same country when the damage occurs, the non-contractual obligation shall be governed by the law of that country.

3. Notwithstanding paragraphs 1 and 2, where it is clear from all the circumstances of the case that the non-contractual obligation is manifestly more closely connected with another country, the law of that other country shall apply. A manifestly closer connection with another country may be based in particular on a pre-existing relationship between the parties, such as a contract that is closely connected with the non-contractual obligation in question.

See Rome II, *supra* note 12, at 11–12.

32. *Id.* Art. 8.

iii. Result

For the issues considered so far, the following conclusions are drawn. First, it is suggested that it is neither necessary nor advisable to deviate from the principle of *lex protectionis* as the basic rule for determining the law applicable to determining the existence and scope of intellectual property rights in transborder conflicts. Second, there hardly seems to be a plausible reason for making a general distinction between registered and unregistered rights in the provision establishing the basic rule for choice of law concerning the existence and scope of intellectual property right. *Lex protectionis* should apply to both.³³

b. Should the Provision Include a Market Impact Rule?

i. Reasons, both Pro and Con, for an Express Regulation: The Example of Rome II

As was pointed out *infra* at Section II(C)(1)(a), the proposed Rome II Regulation does not encompass special provisions on e-commerce and the ensuing problems for transborder IP conflicts. In particular, the proposal does not contain anything which would provide a basis for a restrictive understanding of the notion of an infringement occurring in a particular territory, in the sense that an infringement is only held to occur if it has (substantial, significant) market impact there (market impact rule).

The existence of such a rule may, however, prove to be an essential element for the appropriate assessment of transborder conflicts. This has become particularly obvious in cases concerning conflicting trademark use on the internet (the second scenario mentioned in the introduction, Section I above). Two examples may suffice to illustrate this point.³⁴ In the *Brokat* case decided by the French Court of Appeal in Nanterre in

33. This is different with respect to the issue of initial ownership, where industrial property on the one hand and copyright on the other do pose different questions.

34. For more detailed and comprehensive information about case law in Europe as well as in the United States and Australia, see Richard Garnett, *Trademarks and the Internet: Resolution of International IP Disputes by Unilateral Application of U.S. Laws*, 30 BROOK. J. INT'L L. 925 (2005).

1996,³⁵ two unrelated companies had obtained registrations in France and in Germany respectively for the trademark “Payline” for software used for online banking services. The German company used its mark on its German-only homepage; it did not sell, nor did it offer to sell, its products in France. Nevertheless, a French court, applying French law, arrived at the conclusion that the display of the trademark on the German company’s website infringed the French trademark owner’s right, and ordered the mark to be deleted from the text of the internet website.³⁶ Several years later, before another French court, the owner of the trademark “domina,” protected by registration in France and in several other European countries, claimed infringement by the German-based domain name *domina.net*. In this case, however, the claim was dismissed; the court found *inter alia* that absent a showing of actual harm, that goods ordered from the website had been shipped to France, there was no infringement.³⁷

The result was, however, not due to a different application of choice of law rules. The *Domina* court did not apply any other law than that used in the *Brokat* case, i.e., French law as the law applying in the country where, and for which, protection was claimed.³⁸ Rather, the court interpreted French law differently, taking into account the international character of the conflict as well as the fact that the allegedly infringing act did not—or at least not substantially—affect the domestic market.³⁹

The same approach is reflected in a number of other court decisions from Europe as well as from other parts of the world.⁴⁰ In its essence, this approach complies with the WIPO Joint Recommendation on the Protection of Signs, and Other Rights in Distinctive Signs, Against Use on the Internet, which was adopted in the fall of 2002 by the General Assemblies of WIPO

35. TGI Nanterre, Oct. 13, 1997, SG2 v. Brokat Informations Systeme GmbH [SG2 v. Brokat Information Systems Limited], *available at* <http://www.juriscom.net/txt/jurisfr/ndm/tginanterre19971013.htm>.

36. *Id.*

37. See Asim Singh, *Trademarks and Territoriality in Recent French Case Law*, 17 No. 10 WORLD INTELLECTUAL PROPERTY REPORT 23 (Oct. 2003), *discussing* BD Multimedia v. Joachim H (decided Mar. 11, 2003).

38. *Id.*

39. *Id.*

40. See generally Garnett, *supra* note 34.

and the Paris Convention.⁴¹ In the core provision, Article 2 of the Joint Recommendation, it is stipulated that an infringement shall only be held to occur in a particular territory if its use has commercial effect there.⁴²

The question remains whether these principles should be inserted into an international instrument dealing with choice of law issues. From a strictly systematic point of view, this might be considered inappropriate, because, as was pointed out above, this does not really concern the law to be applied, but rather what constitutes an infringement, i.e., an issue of substantive law,⁴³ or—depending on the approach taken in national law—of jurisdiction.⁴⁴ In accord with this line of reasoning, Article 8.1 of the proposed Rome II Regulation in its present form makes no reference to market impact.

41. Adopted by the Assembly of the Paris Union for the Protection of Industrial Property and the General Assembly of the World Intellectual Property Organization (WIPO) at the Thirty-Sixth Series of Meetings of the Assemblies of the Member States of WIPO on September 24 to October 3, 2001. See *Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights and Signs*, available at http://www.wipo.int/about-ip/en/development_iplaw/pub845.htm (last visited Apr. 17, 2005) [hereinafter *WIPO Recommendation*].

42. *Id.* Art. 2.

43. For a more detailed discussion of the legal nature of the market impact rule see Annette Kur, *Trademark Conflicts on the Internet: Territoriality Re-defined?*, in *IP CONFLICT OF LAW*, *supra* note 7, at 179–82.

44. It has been argued in the German literature that market impact should form part of the criteria determining jurisdiction, meaning that courts must deny their competence to adjudicate an alleged infringement if market impact is missing. It is indeed desirable in principle to apply certain qualifying criteria in order to rule out that mere availability on the internet of potentially conflicting signs will be held sufficient to establish jurisdiction of courts in any country where the conflict exists. However, whether a full and definite evaluation of the market impact rule is already made at the stage of ascertaining jurisdiction, or (as a rule) only afterwards, when the court assesses the merits of the case, is largely a matter of convenience and/or of national traditions and procedural law. For Germany—and probably also for other (continental) European countries—it seems correct to assume that the market impact rule is a matter of “double relevance,” meaning that, although it has an impact for jurisdiction, it will be fully tried only in the framework of assessing substantive infringement. Under U.S. law, on the other hand, to establish jurisdiction under the principle of due process may already involve a full evaluation of all aspects that may be relevant for the assessment of market impact. See Kur, *supra* note 43, at 175.

However, the fact that the European lawmaker, at least until now, saw no need to incorporate an express regulation does not mean that the issue should easily be dismissed. The problems raised by internet communication are typically of a global nature. The question of whether it is advisable to anchor the market impact rule within the framework of choice of law and international jurisdiction provisions must be evaluated differently in such an environment. While there may not be an urgent need for express regulation within a group of countries that are as closely connected with each other as the Member States of the European Union, legal security on the larger international level would certainly benefit from such a rule being spelled out expressly.

ii. Differentiating between Registered and Unregistered Rights?: The Draft ALI Principles

As was pointed out above, the draft ALI Principles may be understood as having taken steps towards differentiation by including, in the basic choice of law provision applying to unregistered intellectual property rights, the rule that the law of any given country should (only) apply if the allegedly infringing act has, or will have, a significant impact on the market.⁴⁵ While that approach appears basically sound, the confinement of the market impact rule to unregistered intellectual property rights is unjustified. There is no pertinent reason why a distinction should be made between the two types of rights for that purpose, as the market impact rule functions similarly for both, ensuring that an alleged infringer will not be held liable with respect to countries where the dissemination of potentially infringing content did not have any, or only minimal, commercial effect.⁴⁶

45. See ALI PRINCIPLES, *supra* note 19.

46. It is true that in addition to limiting the number of countries in respect of which the alleged infringer can be held liable, the market impact rule would also make it clear that the law of countries where no or only minimal impact is shown cannot be invoked as a defense, e.g., by pointing out that the conduct at stake in the proceedings would be legitimate under the law of that country. However, these matters can better be dealt with in the framework of the following provision that regulates infringements carried out in ubiquitous media than in the general rule discussed here.

More critically even, the differentiation made in the rules proposed in the present version of the draft ALI principles could give rise to the (mis)conception that the application of the market impact rule in conflicts involving registered rights is implicitly rejected. This would amount to an open clash with the approach endorsed in the WIPO Joint Recommendation with regard to trademarks⁴⁷ and it would hardly appear to be a sensible solution from a practical point of view. It is therefore submitted that the intention of the reporters formulating Section 301 of the draft ALI principles has by no means been to encourage such an understanding.

Indeed, as was demonstrated above with regard to Article 8.1 of the proposed Rome II Regulation, a “neutral” choice of law provision, i.e., a formulation omitting the market impact rule, does not necessarily entail negative consequences; courts would not, for instance, be barred from taking appropriate account of the international character of a conflict when assessing an infringement under national substantive law. However, as was also stated above, express inclusion of the market impact rule in an international choice of law instrument would definitely increase worldwide legal security. This argument applies with even more force here, where differentiation between registered and unregistered rights risks enhancing the potential for misinterpretation.

iii. Market Impact and Personality Rights (Including Moral Rights)

The above considerations lead to the conclusion that the basic choice of law provision should be expressly supplemented by a market impact rule that applies to all types of intellectual property rights alike. This leaves open the question of how such a rule should be formulated. This rather complex and multifaceted issue requires more thorough elaboration than can possibly be provided in this article.⁴⁸ Nevertheless, it is worth noting that formulation of such a rule would require consideration

47. See *WIPO Recommendation*, *supra* note 41.

48. One aspect which must be clarified—be it in the rules themselves or in an explanatory memorandum—would be that a market impact in a given country cannot be established by the fact that a person sustaining damage has his or her domicile in that country.

of whether reference should be made to “substantial” impact on the market, or merely to market impact, or, like the WIPO Joint Recommendation, to “commercial effect.”⁴⁹ It should also be kept in mind that, whatever the exact formulation would be, the rule will always have to be interpreted in a flexible manner with account being taken of the circumstances of each individual case.⁵⁰

In addition, the following must be considered. While it is correct that in a usual case of intellectual property infringement, the focus should lie on the assessment of the *commercial* effect of the allegedly infringing behavior, a different view must be applied when personality rights or other assets of a personal nature, including the moral rights of authors, are at stake. In these cases, lack of commercial effect should not be a sufficient ground to exclude the application of the law of a country where these rights have been affected by the alleged infringement.⁵¹

This view also seems to be reflected in Section 301(3) of the draft ALI principles, where it is held that the law applicable to the existence and infringement of personal rights should be the law in the country where the damage occurs, without reference being made to the market impact of the damaging act.⁵²

iv. Result

It is proposed that the *lex protectionis* principle endorsed as the basic rule for choice of law in IP matters concerning the existence, validity and infringement of rights should be combined with a market impact rule. No discrimination should be made in that respect between different types of IP rights. With regard to cases involving the infringement of personal rights, including the moral right of authors, however, the application of

49. See *WIPO Recommendation*, *supra* note 41, Part II, Art. 2.

50. For guidelines on this point, see Article 3 of the WIPO Joint Recommendation, *WIPO Recommendation*, *supra* note 41, Part II, Art. 3, which, in turn, has drawn inspiration from U.S. case law concerning jurisdiction in internet cases. See, e.g., *Playboy v. Chuckleberry*, 939 F. Supp. 1032 (S.D.N.Y. 1996); *Bensusan Restaurant Corp. v. King*, 937 F. Supp. 295 (S.D.N.Y. 1996).

51. An even easier solution which is endorsed by a majority in the MPI working group would simply avoid any reference to “market” or “commercial” impact, but would instead refer to “impact” only.

52. See ALI PRINCIPLES, *supra* note 19, § 301(3).

the law of a country where the right has been affected should not be excluded on the ground that market impact is lacking.

c. (How) Should the Basic Rule be Modified with Regard to Multiterritorial Infringement Cases?

i. Creation of Exceptional Rules with Restricted Application

Having accepted *lex protectionis* as the basic rule to be applied for determining the law governing (existence and) scope of intellectual property rights, it is conceded that it will be impossible to abide by a strict application of the country of protection principle when it comes to infringements occurring on a global scale, even if the basic principle is supplemented by a market impact rule. In addition to establishing a general rule like the one proposed above, the task remains, therefore, to promulgate provisions that are capable to cope with such extraordinary situations. In the present version of the draft ALI principles, this task is assumed by Section 302.⁵³ As was pointed out *infra* at Section II(C)(1)(b), the exceptional rule applies where certain factors exist, e.g., where: (1) parties have a pre-existing relationship; (2) surrounding circumstances establish a closer connection with the case than the fact that protection is granted in a given country; (3) it is unduly burdensome for the court to decide on the basis of all the laws of the territories involved; or (4) when the content of the applicable substantive law cannot be ascertained.⁵⁴ A court must then assume the task of identifying the law most suitable to be applied in the case, preferably the law of the country with the closest connection to the dispute. As factors to be taken into account for choosing the appropriate law, the provision refers to the center of gravity of the alleged infringer's business undertaking as well as to the extent of the activities and the investment of the right-holder. Furthermore, attention shall be paid to "the degree to which the desirability of such regulation is generally accepted as evidenced by the

53. *Id.* § 302.

54. Deviation from the country of protection principle shall also be possible if "it is clear from all the circumstances of the case that it is more closely connected to the law of another country" or if "there is a pre-existing relationship between the parties that is closely connected with the claims in issue." *Id.*

TRIPS and successive international laws.”⁵⁵ As a default rule, the law of the forum shall apply.⁵⁶

The issues raised by this provision are too complex to be discussed here in detail. Nevertheless, the following aspects shall be highlighted. As a starting point, it must be remembered that, even in the age of cyberspace, the importance and wisdom of the objectives underlying the territoriality principle should not be forgotten or underestimated: it is essential for safeguarding the sovereign right of individual states to allow those states to decide (to the extent this is compatible with international obligations) whether and how intellectual property should be protected in their own country. There is no doubt that the *lex protectionis* rule, as the principle presently dominating private international IP law, is best suited to ensure that the territoriality principle and its political implications are respected internationally.⁵⁷ As was emphasized *infra* at Section I, it is a basic policy of the Max-Planck project to ensure that these principles are not too easily discarded in the present discussions.

It follows that any deviation from the *lex protectionis* rule

- must be motivated carefully
- should be restricted to those cases where deviation is actually necessary, and
- should be phrased as precisely as possible, regarding both the prerequisites for its application and its legal consequences

It is highly doubtful that a rule like the one presently proposed in the draft ALI principles lives up to these requirements. There is an obvious risk that courts, when applying rules like those contained in Section 302,⁵⁸ will too easily resort to simplifying strategies whenever they find it too burdensome to apply foreign law, possibly with quite critical consequences.

55. See ALI PRINCIPLES, *supra* note 19, § 302.

56. *Id.*

57. For an in-depth analysis of the issue see Richard Fentiman, *Choice of Law and Intellectual Property*, in HEADING FOR THE FUTURE, *supra* note 4, at 129–48; see also Graeme B. Dinwoodie, *Trademarks and Territory: Detaching Trademark Law from the Nation-State*, 41 HOUS. L. REV. 885, 891–907 (2004).

58. See ALI PRINCIPLES, *supra* note 19, § 302.

In order to control such tendencies, the exceptional character of the rule deviating from the basic principle should be established beyond doubt. To that aim, it should be stated in an unmistakable fashion that the *lex protectionis* principle (supplemented by the market impact rule) must be observed as long as the foreign countries for which protection is sought can be, and are, individually specified in the claims. This would be the general rule applying in cases belonging to the first scenario depicted in the introduction (Section I), i.e., when patent or trademark rights existing, typically on the basis of an international registration, in a number of foreign countries are infringed by one person or a number of persons acting together by manufacturing of products in, or delivering into, those countries. Only under the condition that the laws of all those countries—where the infringement takes place and for which protection is sought—have been taken into account, should it be internationally accepted that the judgment becomes valid abroad. Only then must the judgment be observed with respect to acts carried out within, or being (exclusively) targeted to, the countries identified therein. The same rule should also be observed in cases falling under the second scenario, i.e., when the infringement is carried out via global communication media, but can still be specified as occurring in one or several clearly identifiable countries.

Contrary to what is set out in the draft ALI principles,⁵⁹ no exception from the *lex protectionis* rule should be allowed in cases involving a pre-existing relationship between the parties or a common country of domicile. According to the prevailing view in the MPI working group, there is also no reason to provide for exceptions where the court or the parties have difficulties in ascertaining the law of a foreign country, or countries, to be applied in the case.⁶⁰ It is understood, however, that this

59. Allowing deviation under Section 302's exceptional rule. *See id.* § 302.

60. In the paper presented at the October 2004 Brooklyn Symposium, the text of proposed provisions on choice of law had embedded the following provision:

§ 2

(1), (2)...

[(3) If the law of some or several of the countries specified in the claim as countries for which protection is sought cannot be ascertained, the

should not exclude the possibility for national courts to employ default rules that may be available in such a case under municipal private international law.

A different concern that, until now, has not been discussed at length in any of the existing proposals concerns whether, and to what extent, flexibility should be granted to the parties of a conflict to make an *ex-post* choice of the law applicable for determining the remedies imposed.⁶¹ Even though it appears unlikely that such a choice would frequently be made in practice, the issue is worth considering. On one hand, as was pointed out in the introduction, party autonomy may constitute a valid argument on which a deviation from the territoriality/*lex protectionis* principles might be grounded. Although a state's sovereign decisions regarding the content and scope of protection granted for IP rights existing on its own territory must generally be respected, there is in principle no cogent reason why the owners of such rights should not be allowed to waive their right to specific remedies in favor of the application of foreign law, if done so in the framework of a voluntary agreement. On the other hand, before such a rule can actually be embraced,

judgment can proceed from the presumption that the law in that country

(a) does not differ substantially from the law of other countries whose law is considered in the proceedings, and/or

(b) complies with international conventions applicable in the field concerned.

(4) If the aspects mentioned in paragraph (3) (a) and (b) do not furnish a sufficient basis for a presumption, the court shall dismiss the claim regarding the country or countries whose law cannot be ascertained.

(5) A judgment based on a presumption pursuant to paragraph (3) shall not be enforced in a country whose law could not be ascertained in the proceedings, if the law in that country differs from the presumption applied to an extent which would have been decisive for the remedies imposed in the judgment with respect to that country.]

It was, however, decided in subsequent discussions that such a rule is superfluous or even dangerous and should therefore not be inserted in the proposed text.

61. One could, of course, even discuss whether parties should be given freedom to make an *ex-post* choice of the law applicable to the conflict as such. However, the interests of third parties might be affected in such a case even more than by a choice of law regarding sanctions only.

the question must be investigated whether the acceptance of *ex-post* choice of law with regard to remedies would encroach upon the interests of third parties in a manner that would make such a choice unacceptable due to superior policy reasons. After all, the protection of third-party interests may, at least indirectly, constitute a valid objective of the sanctions regime established under a given national law. In that context, one may have to consider whether the freedom to choose the applicable law with regard to sanctions, if acceptable at all, should only concern the quantitative aspects—such as the computation of damages—or the whole arsenal of available remedies, i.e., whether it should even comprise sanctions that would not be available at all under the normally applicable national law(s). Lastly, it might be discussed whether, for reasons of efficiency and convenience, the option for an *ex-post* choice of law should be restricted to the *lex fori*.⁶²

ii. Principles Constituting the Exceptional Rule

While the rules depicted thus far remain grounded on the *lex protectionis* principle, with limited exemptions based solely on the aspect of party autonomy, one must inevitably also consider a provision enabling the application of, if possible, only one single set of rules instead of a multitude of different national laws. The need for such a rule arises mainly in the cases falling under the third scenario mentioned in the introduction, i.e., in cases when the alleged infringement cannot be located in one or several specific territories (ubiquitous infringements).⁶³ This situation will regularly, although not necessarily, arise with regard to (copyright) infringements carried out on the internet or through comparable media. In addition, the formulation of such a rule is also of interest for cases where the conflict itself is not ubiquitous, but where the remedies claimed with regard to

62. See, e.g., Swiss law, where parties' choice of law (if admissible at all) is restricted to municipal law.

63. See e.g., *Elektra Entertainment Group, Inc. v. Bryant*, 2004 U.S. Dist. LEXIS 26700 *19–20 (D. Cal. 2004) (“Defendant’s means of infringement—an online media distribution system with tens of millions of potential users—has left Plaintiffs’ sound recordings vulnerable to massive, repeated, near-instantaneous, and worldwide infringement.”).

transborder conflicts are such that they affect, for legal or practical reasons, other territories (remedy overspill)⁶⁴ as well.⁶⁵

The most sensible solution with regard to such exceptional cases would be to apply the law of the country having the closest connection to the infringement in its entirety. This is also the solution endorsed in the draft ALI principles.⁶⁶ Pending further deliberations on how the determination should be made, it is foreseeable that the primary choice will often be between the country where the harmful effect of the infringement is felt most and the country from which the infringement originates.⁶⁷ This will typically coincide with the rightholder's and defendant's main places of respective business. The key problem resulting from this constellation concerns the fact that if the legal situation in both countries differs materially with respect to an issue that is decisive for the judgment, the choice between the two sets of rules will be very difficult and risks being arbitrary. It cannot be ignored that in such a situation, there will be a strong tendency to favor the *lex fori*. As, according to the structure of international principles currently under debate, the choice of forum is regularly made by the rightholder,⁶⁸ with a

64. The problem of remedy overspill does not only occur in situations falling under the third scenario. It is also frequently addressed under the second scenario, and may even occur in cases falling under the first scenario. See, e.g., TGI Nanterre, Oct. 13, 1997, SG2 v. Brokat Informations Systeme GmbH, available at <http://www.juriscom.net/txt/jurisfr/ndm/tginanterre19971013.htm> (second scenario); N.F.L. v. Primetime 24 Joint Venture, 211 F.3d 10 (2d Cir. 2000) (first scenario). To prohibit the broadcasting in the United States makes impossible also the transmission of programs to Canada, where this is perfectly legal.

65. See e.g., N.F.L. v. Primetime 24 Joint Venture, 211 F.3d 10 (2d Cir. 2000).

66. See ALI PRINCIPLES, *supra* note 19, § 302 (2).

67. This corresponds to the factors mentioned in the draft IP principles. *Id.*

68. In that respect, draft IP principles as well as the MPI proposal, presented in HEADING FOR THE FUTURE, *supra* note 4, at 307 app., follow the structure set out in the 1999 DHJC, HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW, PRELIMINARY DRAFT CONVENTION ON JURISDICTION AND FOREIGN JUDGMENTS IN CIVIL AND COMMERCIAL MATTERS (adopted Oct. 1999), available at http://www.hcch.net/upload/wop/jdgm_drafte.pdf (last visited Apr. 2, 2005) [hereinafter HAGUE JURISDICTION CONVENTION]. It is for the plaintiff to choose the forum. However, if an alleged infringer claims for declaration of non-infringement, a subsequent claim by the rightholder for substantive

possible option to consolidate worldwide proceedings before the courts in his or her home country,⁶⁹ the negative consequences to the defendant must be taken very seriously. The following proposals should therefore be discussed as an instrument for counterbalancing possibly detrimental effects:

*Alternative A:*⁷⁰ If, in cases falling under the exceptional rule it is indeed the plaintiff who chooses the forum, and in particular if this includes the option to bring the case before the courts in her home country, a presumption should operate in favor of the defendant, to the effect that the law applying in the defendant's country of domicile has the closest connection with the case, unless the plaintiff adduces sufficient evidence establishing that another country has a closer connection.

Alternative B: As an alternative solution, the principle could be enshrined in the provision that whenever a court applies one national law with regard to ubiquitous infringements, the following rules must be observed. First, the sanctions imposed on the basis of the law applied by the deciding court must be proportionate to the impact of the activities on the market of the forum state and/or other states where the activities are found to be illegal on the basis of the national law(s) applying there. Furthermore, no sanctions may be imposed which would forbid, or interfere with, legitimate business carried out by the alleged infringer in another country impacted by the same activities, unless, and to the extent that, this is indispensable in order to safeguard the legitimate interests of the party whose rights are claimed to be infringed.⁷¹ In order to ensure full compliance with that principle, the alleged infringer must retain the right to be heard with the argument that his or her conduct is admissible pursuant to the law of another country which is impacted by the same activities.

remedies will prevail. Hence, for all practical purposes, it is always the rightholder who has the choice of forum.

69. This applies to the draft IP principles, and it would also result from the last half-sentence of Article 10.4 of the 1999 DHJC (now obsolete). See HAGUE JURISDICTION CONVENTION, *supra* note 68. By contrast, the option for a rightholder to consolidate proceedings in his or her home country is considerably more restricted in the MPI proposal. See Kur, *supra* note 4, at 28; see also Kur, *European Perspective*, *supra* note 10, at 69.

70. This proposal goes back to a suggestion made by Paul Torremans.

71. See Kur, *European Perspective*, *supra* note 10, at 69.

The second alternative proposal is modeled on Articles 13 through 15 of the WIPO Recommendation on the Use of Signs on the Internet.⁷² While this scheme admittedly works well for trademarks,⁷³ it remains to be seen whether it is equally capable of resolving the more complex problems arising in other fields, copyright in particular. Exploring this issue in more detail will be at the forefront of the MPI working group's future agenda.

iii. Result

It is proposed that an exceptional rule allowing for application of one set of national substantive law provisions instead of abiding by the *lex protectionis* approach should be restricted to cases when deviation is actually needed, i.e., when it is not possible to determine the countries where the infringement has occurred, is occurring or is threatening to occur, and to specify these countries in the claims. The exceptional rule should contain elements preventing the court from too readily applying the law of the forum, and from imposing sanctions that would unduly interfere with legitimate business carried out abroad.

d. Text of Proposed Choice of Law Rules

While, admittedly, some variation in choice of law rules regarding IP conflicts is necessary to accommodate new technological developments, the proposals submitted below adopt a cautious approach to change. As mentioned above, the old rules on territoriality and *lex protectionis* should be observed as faithfully as possible even in the cyberspace age. Based on this concern, and the previous deliberations above, the following tentative text is proposed for further discussion:

§ 1

General Rule

72. See *WIPO Recommendation*, *supra* note 41, Part VI, Arts. 13–15.

73. See *infra* Section II(C)(2)(b)(1)(i); see also Garnett, *supra* note 34. Of course, although the appropriateness and feasibility of the rules are generally accepted in trademark law, their application in an individual case may still pose intricate legal and practical problems.

- (1) As a general rule, the law applicable to determine the existence, validity and scope of intellectual property rights is the law of the country for which protection is sought:
- (2) The country for which protection is sought is
 - (a) the country, or each country, for which the claim as regards the existence or validity of the intellectual property right shall become effective,
 - (b) the country, or each country, in which, according to the claim, an infringement occurs and where, or with respect to which, the remedies sought shall become effective.
- (3) For the application of paragraph (2) (b) in trans-border conflicts, an alleged infringement shall only be held to occur in a country if it has [a] [substantial] impact on the domestic market.
- (4) Notwithstanding paragraph (3), an alleged violation of a personal right (including the moral right of authors) is held to occur in the country [or in each country,] where the right is affected.

§ 2

Infringement occurring in several countries specified in the claim

- (1) If, pursuant to § 1, infringements for which relief is claimed in the proceedings occur in several countries, the law of each country which is specified in the claim as a country for which protection is sought shall be applied.
- (2) [The parties in a conflict involving the infringement of an intellectual property are entitled to choose the law applicable to the remedies imposed for the infringement.]

§ 3

Infringement occurring in an unspecified number of countries⁷⁴

- (1) If infringement proceedings are concerned with an alleged infringement that is ubiquitous, meaning that it occurs, or may occur, in an indefinite number of countries, which therefore cannot be specified in the claims, the court shall

74. See ALI PRINCIPLES, *supra* note 19, § 302.

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apply the law of the country having the closest connection with the infringement in its entirety.

- (2) In determining which country has the closest connection, the court shall take the following into account:
- (a) the centre of gravity of the alleged infringer's business undertaking, [as measured as objective factors];
 - (b) the extent of the activities and the investment of the rightholder.

Alternative A:

- (3) If the factors listed in (2) (a) and (b) point towards different countries, the court shall presume that the country having the closest connection with the infringement is the country where the defendant is domiciled, unless the plaintiff establishes that another country has a closer connection with the infringement in its entirety.
- (4) If the court finds that the country having the closest connection with the infringement in its entirety cannot be established pursuant to the rules under (2) and (3), it shall limit the remedies imposed proportionally to the harmful effects occurring in the country or countries where the allegedly infringing conduct is prohibited under the law applicable in that country or countries.

Alternative B:

- (3) The sanctions imposed on the basis of the law deemed by the deciding court as the law having the closest connection with the case must be proportionate to the impact of the activities in
- the forum state and/or
 - other states where the activities are found to be illegal on the basis of the national law(s) applying there.
- (4) No sanctions may be imposed which would forbid, or interfere with, legitimate business carried out by the alleged infringer in another country impacted by the same activities, unless, and to the extent that, this is indispensable in order to safeguard the legitimate interests of the party whose rights are claimed to be infringed. Notwithstanding the law deemed by the deciding court as the law having the closest connection with the case, the alleged infringer shall retain the right to claim and, if necessary, to establish that his or her conduct is admissible pursuant to the law of another country which is impacted by the same activities.