

INTERNATIONAL LAW ASSOCIATION

WASHINGTON CONFERENCE (2014)

INTELLECTUAL PROPERTY and PRIVATE INTERNATIONAL LAW

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Introductory Remarks

Since its establishment in November 2010,¹ the ILA Committee ‘Intellectual Property and Private International Law’ held four intensive meetings in order to further examine the current state of the legal framework concerning the protection of IP rights in the international sphere. The first meeting took place in Lisbon (16-17 March 2012), the second was held in Sofia (26-30 August 2012), the third one in Amsterdam (15-16 March 2013), and the fourth one in Paris (24-25 October 2013). The overall objective of the Committee is to propose a set of Guidelines on the basis of the current state of legal discussions at international level. The proposed Guidelines are expected to provide a set of recommendations to promote a more efficient resolution of cross-border IP disputes and provide a model for national and international legislative initiatives. In particular, the work of the Committee builds upon the earlier projects conducted by the Hague Conference of Private International Law² as well as several academic initiatives that followed it. The Committee has conducted a number of comparative studies which have already been published.³ This preliminary work was conducted with an objective to take stock of the common features of the previous proposals drafted in various regions of the world.⁴ The First Report of the Committee was presented at the ILA Congress in Sofia (August 2012).⁵ The present Report outlines the progress achieved by the Committee since the 2012 Sofia Congress.

Jurisdiction

The Framework of Jurisdiction Guidelines

Jurisdiction to hear cases concerning cross-border IP disputes is one of the main areas of the Committee’s work. Two comparative studies were prepared for the first (Lisbon) meeting of the Committee. Those two reports closely analysed the similarities and differences of the legislative proposals⁶ as well as the possibilities of finding some common grounds for the development of the ILA Guidelines. Since then, two sub-committees had been working intensively on a draft of guidelines on jurisdiction which was presented to the Committee at its third meeting in Amsterdam. The members of the Committee discussed in three sessions draft provisions on jurisdiction. Based on the comments received at the Amsterdam meeting, and with the objective to streamline the drafting activities, it was decided to separate the issues into two categories: controversial and non-controversial issues. The draft guidelines dealing with the so-called non-controversial issues were prepared and serve as a blueprint for drafting guidelines for other issues.

The drafting of the jurisdiction guidelines has been based on the following considerations. First, the ILA Committee aims to prepare a set of guidelines that would be easily comprehensible for lawyers coming from various legal traditions. Therefore, legal terms and concepts used in the draft Guidelines were subject to meticulous scrutiny. Second, the scope of issues dealt in the section on jurisdiction was pre-determined by the legislative proposals and the 2001 Hague Draft of the Judgments Convention. By taking such a path-dependency approach, the Committee aims to limit its work only to the most significant issues for international litigation theory and practice. Moreover, the level of generality or specificity of the Guidelines may vary to ensure a high

¹ See: ila-hq.org/en/committees/index.cfm/cid/1037.

² So-called Hague Judgments project, more information available at: hcch.net/index_en.php?act=text.display&tid=149.

³ Journal of Intellectual Property, Information Technology and Electronic Commerce Law (JIPITEC) Vol. 3, No. 3 (2012), available at: jipitec.eu/issues/jipitec-3-3-2012.

⁴ The American Law Institute, *Intellectual Property: Principles Governing Jurisdiction, Choice of Law and Judgments in Transnational Disputes* (Chestnut, ALI Publishers, 2008); European Max Planck Group on Conflict of Laws in Intellectual Property, *Conflict of Laws in Intellectual Property: The CLIP Principles and Commentary* (Oxford University Press, Oxford, 2013); Japanese Transparency Principles available in J. Basedow, T. Kono, and A. Metzger (eds.), *Intellectual Property in the Global Arena: Jurisdiction, Applicable Law, and the Recognition of Judgments in Europe, Japan and the US* (Tübingen, Mohr Siebeck, 2010); and the Joint Japanese-Korean Proposal, see ‘Commentary on Principles of Private International Law on Intellectual Property Rights (Joint Proposal Drafted by Members of the Private International Law Association of Korea and Japan)’ (2011) 2(6) *Kigyō to Hōsōzō*, available at www.globalcoe-waseda-law-commerce.org/activity/pdf/28/08.pdf.

⁵ Available at: ila-hq.org/en/committees/index.cfm/cid/1037.

⁶ See *supra* note 4.

degree of acceptance. Third, in the Amsterdam meeting, the Committee agreed that the section of the Guidelines containing jurisdiction provisions should cover these four areas: (i) basic forum (defendant's residence); (ii) alternative fora (choice of court agreements, contracts and infringement, consolidation of claims, entitlement and ownership); (iii) other fora (validity of IP, declaratory actions, provisional and protective measures); and (iv) coordination and cooperation (parallel proceedings, counterclaims, insufficient grounds of jurisdiction).

Non-controversial Issues

Defendant's Forum. The general jurisdiction rule in the ILA Draft Guidelines is defendant's habitual residence. The ILA Committee adopts the approach that the habitual residence of the defendant in the forum state constitutes an appropriate connection to confer jurisdiction. Accordingly, the ILA draft Guidelines follows the prevailing approach adopted in most legislative proposals. On the basis of this jurisdiction ground, the court of the defendant's residence could assert jurisdiction also in cases where the main claim concerns foreign IP rights. This idea is generally reflected in the draft Guidelines which stipulate that the court of the state of the defendant's habitual residence should be competent to decide upon claims related to IP rights without territorial restrictions. Such broad jurisdiction of the defendant's residence court aims to tackle situations which involve multi-state exploitation / infringement of parallel IP rights. Yet, it should be noted that further limitations to adjudicate certain claims related to foreign IP rights remains a controversial issue and will be further clarified in other guidelines such as those dealing with infringement and validity matters. Due to the deeply-rooted differences in national laws, it was generally agreed that the definition of the "habitual residence" would go beyond the mandate of the Committee.

No need for an additional rule on territoriality. In addition to defendant's forum, the Committee discussed the possibility of adding another jurisdiction provision clarifying that the courts of the state whose territory is covered by an IP right are competent to hear disputes related to that IP right. This would *arguably* make clear that disputes concerning the ownership, validity, infringement or other matters related to the IP right could be adjudicated in the courts of the state where the protection is sought. It was decided unilaterally, that such a provision is not desirable for several reasons. First, it was feared that such a provision could be easily misinterpreted as reinforcing territorial view towards the adjudication of cross-border IP disputes. Second, it appeared that such a provision might also cause friction with other jurisdiction and choice of law provisions; for instance, some members deemed it to be closer to a rather specific in rem matters or jurisdiction to hear claims related to validity of IP right, rather than standing side-by-side to the defendant's residence. Third, it became obvious that this rule would raise significant difficulties concerning the determination of its scope and characterization (e.g., whether disputes concerning multi-state licensing of IP rights are covered, etc.). Fourth, other sections of the ILA Guidelines already guarantee that courts of the state whose territory is covered by an IP right have jurisdiction over matters pertaining to that IP.

Contracts. The ILA draft Guidelines also include a rule according to which disputes concerning IP license or transfer contracts could be brought before the courts of the State for which the license is granted or the IP right is transferred. The proposed guideline also specifies that if the license or transfer of the IP right is the sole basis of jurisdiction, then the court's adjudicatory powers are limited to the activities in the forum state. This is a widely accepted approach.⁷ The limitation of court's powers only with regard to the performance of the contract in the forum state offers legal certainty. Nonetheless, this could also lead to an excessive fragmentation of jurisdiction. In the light of these considerations, further discussions might seem appropriate on this issue. One possibility would be to investigate whether objective consolidation of related claims could be relevant in this context.

Consolidation of claims. In practice, there has been an increasing number of disputes which concern cross-border exploitation of parallel IP rights. It often happens that those parallel IP rights are exploited by

⁷ Cf., Art. 6 Hague 2001 Draft, S. 205 ALI Principles, Art. 2:201 CLIP Principles, Art. 204 Joint Korean-Japanese Proposal, Art. 104 Transparency Principles.

related persons (e.g., companies belonging to the same group). For instance, there may be cases where the cross-border exploitation of parallel IP rights is undertaken by a group of related individuals or entities who are not bound by any contractual ties with the proprietor of the IP rights. In such situations the issue arises as to where the right holder can initiate the proceedings and whether any kind of consolidation of claims against parallel infringers is possible. Traditionally, in many countries courts have taken a rather territorial perspective and agreed to assert jurisdiction only over claims concerning IP rights of the forum state. Nevertheless, the proliferation of digital telecommunication technologies and global business models spurred the discussion about the need to facilitate more efficient avenues of litigating disputes involving parallel IP rights.

The ILA Committee proposes to address this problem by allowing the consolidation of claims in certain situations. First, the consolidation of claims against multiple defendants has to be dealt with. In order to enhance procedural efficiency and allow consolidation of claims the owner of parallel IP rights should be able to consolidate claims against defendants who infringe those IP rights provided that certain requirements are met: the claims must be closely connected and there should be a risk of inconsistent judgments if disputes against those defendants are adjudicated by courts in different states. By adopting this position the Committee follows the approaches embedded in the previous legislative proposals.⁸

Second, in complex multi-state IP disputes, there may be situations where there is a need to consolidate objectively related claims. Such disputes typically involve claims and counterclaims that are brought by same parties in the proceedings. The question at stake concerns the possibility of consolidation of the entire dispute before one single court. The 2001 Hague Draft as well as the four sets of principles contain some special rules which aim to facilitate the consolidation of related claims. Nevertheless, such rules differ to some degree. Therefore, the Committee expects to further investigate whether the ILA Guidelines should contain a special provision dealing with the consolidation of objectively related claims. At the heart of the discussion is the question about the minimum connection that has to be met in order to consolidate objectively related claims.

Initial title and ownership. In high-growth innovation markets disputes also arise with regard to the entitlement/ownership of IP rights (e.g., a dispute between an employee-inventor and the employer or co-authors as well as disputes between competing firms concerning the registration of IP rights). The ILA Committee acknowledges the advantages of a clear-cut jurisdiction provision for such matters. Hence, it is proposed to specify that the courts of the state where the IP right exists or for which application is pending should have jurisdiction over matters concerning the entitlement or ownership of that IP right. This provision is an alternative to the defendant's forum and clarifies that such matters as initial title/ownership do not fall in categories of "subject-matter" or "exclusive" jurisdiction.

⁸ Art. 14 of the Hague Draft of 2001, Art. 206 of the CLIP Principles, Art. 2:206 CLIP Principles, Art. 110 of the Transparency Principles, Art. 208 of the Joint Japanese Korean Proposal.

Insufficient grounds of jurisdiction. Discussions were also held about the convenience of providing indications regarding the so-called “insufficient” grounds of jurisdiction. A set of insufficient grounds of jurisdiction was firstly enshrined in the 2001 Hague Draft and subsequently adopted in the ALI Principles and the Joint-Japanese Korean Proposal.⁹ One possibility would be to follow those earlier instruments and enumerate a list of grounds which are deemed to be insufficient for a court to assert jurisdiction. Among those insufficient jurisdiction grounds, particular attention should be given to the following: the presence of physical or intellectual property of the defendant not directly related to the dispute; the nationality or mere presence of one of the parties in the forum state; the conduct of commercial or other activities by the defendant in the forum state unless the dispute is related to those activities; the service of a writ upon the defendant or the completion of the formalities necessary to execute an agreement. Two further remarks are noteworthy here. First, a provision on insufficient grounds of jurisdiction should not preempt the court from exercising jurisdiction on other grounds which may exist in national legislation. Second, a list of insufficient grounds of jurisdiction should not be exhaustive and should be perceived as having a normative function of guiding future law-making activities on national or supra-national levels.

Controversial and Remaining Issues

Jurisdiction to adjudicate validity related claims and IP-infringement disputes are two areas where the ILA Committee has not yet reached consensus. Earlier comparative studies conducted soon after the establishment of the Committee highlighted conflicting legal and policy considerations. Various proposals about possible ways to overcome territorial limitations which underpin adjudication of cross-border IP disputes have been put forward in the academic literature. However, the real challenge concerns actual implementation of these proposals in legal practice. The Committee is aware that the transition from a rather fragmented litigation practice towards a more efficiency-oriented framework is going to be a lengthy process.

There are two strands of inter-related problems that the Committee has to address. In disputes involving registered IP rights, the main issue surrounds existing limitations to adjudicate claims related to foreign IP rights. Although legal traditions differ from country to country, in recent years it has become clear that issues related to validity and registration of registered IP rights are often deemed to fall within the exclusive/subject-matter jurisdiction of the granting state. This has become a noticeable hurdle because one of the parties would usually challenge the validity of the registered IP right even in infringement and contractual disputes. Recently, there has been increasing wave of criticism towards the approach which requires that validity and registration matters should be dealt with by the courts of the state of registration even if the validity is invoked incidentally for the purposes of defense. The second strand of problems concerns adjudication of disputes concerning multi-state / ubiquitous infringements of IP. This issue has become especially problematic due to its complexity that has been brought about by the digital communication technologies. The Committee is discussing possible solutions to cope with the fragmentation in adjudicating such multi-state IP disputes. The earlier legislative proposals already tried to establish for a more efficient framework although; however, the proposed solutions to achieve those objectives vary to some degree.

Taking into consideration that validity and infringement matters are deeply rooted in fundamental principles of national laws, the ILA Committee considers various alternatives how to address complex matters related to jurisdiction over validity and infringement disputes. Three alternatives for each issue (i.e., jurisdiction over validity claims and jurisdiction over IP infringement disputes) had been prepared for the Committee’s discussion at the Amsterdam meeting; each of those alternatives aimed at placing an emphasis on one of possible solutions/approaches. However, during the discussions within the Committee it became clear that giving preference to one specific solution and ousting other possible approaches might not be appropriate to achieve the overall objectives of the Committee. In particular, some of the members criticized the aspiration to develop very detailed provisions to solve complex multi-state jurisdictional issues and favoured a more general and flexible approach. Therefore, the two issues pertaining to jurisdiction over validity and related matters and infringement disputes remain unsettled and will be subject to further reconsideration in the following meetings

⁹ See Art. 18 of the 2001 Hague Draft, S. 207 ALI Principles and Art. 212 Joint Korean-Japanese Proposal.

of the Committee. It should be noted that, especially where no consensus among the Committee can be reached, an open provision proposing several alternative solutions may be eventually adopted.

One more area which concerns jurisdiction of courts is coordination and consolidation of proceedings. Although a special subcommittee had been formed at the outset, the work on these matters has not significantly progressed due to two main reasons. First, in order to be able to decide about the approach towards the coordination of parallel proceedings and possible avenues of consolidation, the Committee first of all has to agree on main provisions on jurisdiction. Second, the fact that significant progress has been achieved in certain regions (particularly, in the EU) raises further issues as to how to coordinate multi-state IP in such an increasingly complex environment. The work of the Committee will be set in motion once the Committee finds consensus over the core jurisdiction provisions.

Choice of Law

The second set of problems in cross-border IP-related cases relates to the choice of governing law. The expansion of global markets and possibility of dissemination of IP-protected content online brought additional set of complex choice of law quandaries. The drafters of recent legislative proposals aimed at bringing more clarity into this nebulous area of private international law. One of the main tasks of the ILA Committee is to try to find common principles which could set a more stable ground for future developments in choice of law and facilitate the dissemination of creative ideas and innovation around the globe. To achieve these goals, several subcommittees have been formed to deal with choice of law matters pertaining to the following areas: (i) IP-related contracts, (ii) IP infringements and (iii) initial title/ownership.

Law Governing IP-Related Contracts

A group of experts of the ILA Committee was assigned the task to examine the peculiarities surrounding contracts concerning cross-border exploitation of IP. In order to identify the controversial issues a questionnaire was prepared and distributed among the members of the sub-committee. During the internal discussions, a number of issues emerged as requiring a more careful consideration. At the outset, the Committee had to decide what kinds of contracts should fall into the scope of the Guidelines. It is clear that the Guidelines would cover contracts where IP is the main object of a transaction (e.g., transfer of IP rights, licenses for one or more states, cross-licensing, transfer of technology as well as contracts commissioning the production IP-protected subject-matter). The Committee also agreed that Guidelines should also apply to contracts concerning trade secrets and know-how. On the other hand, contracts in which IP does not constitute the core element such as franchise or distribution would be excluded. The final position of the Committee with regard to employment contracts will be taken in the future as the work of the sub-committee on initial title progresses. The Committee also discussed whether mass-market agreements should be covered; yet, it was agreed not to include such contracts because they raise very few IP-specific problems (e.g., user's right to make a safety copy) and could require a more detailed analysis to take into account that consumers are frequently involved in those transactions.

In contractual disputes, particular attention should be devoted to the difficulties involved in drawing the line between *lex contractus* and *lex protectionis* (e.g., exhaustion of an IP right which may interfere with the performance of the contract). However, determining the scope of *lex loci protectionis* is a key issue also with regard to other choice of law provisions (e.g., initial title or infringements of IP).

Parties' freedom to choose the governing law is posited in the Guidelines as a basic principle in the field of contractual obligations. Party autonomy is widely accepted and highly recommended for it provides the contracting parties the necessary flexibility in designing transactions for the cross-border exploitation of IP. Moreover, party autonomy reduces uncertainty and curtails the incentives for forum shopping.

One of the most intriguing elements of the discussion focused on determination of applicable law in situations where an IP-related contract does not contain any choice-of-law clause. At least three possible methodologies to deal with such situations could be identified. The first approach would be to apply the law of the protecting country. The advantage of this solution is that both proprietary and contractual aspects are governed by the same law. However, this approach also has limitations: e.g., in the case of contracts concerning exploitation of IP rights in multiple states it would lead to a burdensome fragmentation. Second, the "closest connection" approach is often coupled with the application of the law of the state in which the party who is

performing the characteristic obligation is resident. Characteristic obligation is usually the one for which the payment is due (e.g., provision of services or providing goods). This approach has gained considerable support in many civil law countries around the globe. Yet, one of the main weaknesses of this methodology is embedded in the complex nature of IP-related transactions: arguably, it is not always possible to identify the characteristic obligation. Hence, the closest connection approach has been criticized for unpredictability of outcomes and risk of forum shopping. The third approach, while also based on the “closest connection” approach, focuses on several particular factors in order to identify the centre of gravity of the contract, in line with the approach which could be found in the Second Restatement (Section 188). The proponents of this approach highlight the possibility to reach fair results taking into account case-specific considerations.

The draft Guidelines adopt a two-pronged approach. First, as for contracts concerning the exploitation of IP rights of one single country, the proposed solution is to apply the law of the state in which IP is exploited (rather than of the place where the licensor or licensee is resident). The advantage of this solution is that the law of the contract coincides with the *lex loci protectionis*, is easy to apply and leads to predictable outcomes.

Second the Committee aims to provide a workable solution for the cases where contracts concern the exploitation of IP rights in multiple states. The Committee agreed that the proposed rule should be based on the closest connection (or proximity) approach. However, a mere reference to the “the law of the place which has the closest connection to the contract” was considered as unsatisfactory and not offering much assistance in solving actual controversies. Therefore, the Committee decided to provide a set of additional factors that should help to determine the centre of gravity of the contract. The factors considered were: (i) common habitual residence of the contracting parties, (ii) whether the IP rights are protected in the state where one of the parties is resident; (iii) whether the assignee/licensee has the duty to exploit the IP rights; and (iv) whether one of the parties has the duty to create the matter protected by IP rights. These factors resemble those that can be found in a similar provision of the CLIP Principles (Art. 3:502). It should be also noted that the above-mentioned list of factors is not exhaustive and that additional relevant factors can be taken into consideration. In addition, there is a growing support among the Committee members to the idea that the ILA Guidelines should provide for an escape clause for those cases where it is obvious that the contract is more closely connected to the law of another state.

Finally, the Committee reached a consensus that a special provision on international mandatory rules (*lois de police*) could be appropriate. It was also agreed that the recourse to the international mandatory rules should be limited. The need for a special provision dealing with the application of mandatory rules was widely supported because it could provide to be helpful in aligning the existing differences among the various legal traditions (e.g., the limitation of transferability of certain IP rights in some countries is considered as a proprietary issue requiring the apply *lex loci protectionis* where as in other countries it qualified as a internationally mandatory rule). In addition, mandatory rules could also be helpful to incorporate more general objectives of protecting weaker parties (e.g., creators, employees) or the interests of the competitors. Further discussions should address if such a provision should have a general application also with regard to issues other than contracts.

Among the outstanding issues to be considered by the Committee are employment contracts and restrictions of choice of law, form and validity, the scope of *lex loci protectionis*, *renvoi*, public policy, and, perhaps, compulsory licenses. Special provisions might be provided to address these matters. It was also agreed in the Paris meeting that the Guidelines should not deal with such general matters as the law applicable to consent and capacity as well as proof and application of foreign law.

IP Infringements

Initially, there were two special subcommittees dealing with (a) applicable law to infringements and (b) legal position of intermediaries. At the outset, a questionnaire concerning law governing infringements was prepared and the results received from the members of the subgroup were discussed internally as well as in the Committee meeting in Amsterdam. In particular, first proposals of provisions on *lex loci protectionis*, *de minimis*, and party autonomy rules were drafted and further analysed. Meanwhile, the subcommittee on intermediaries reviewed the replies to another questionnaire and discussed the scope and strategy of the subcommittee’s work. It was decided that law applicable to secondary infringement (intermediary liability)

should be examined together with the question of applicable law to ubiquitous infringement. For this reason, the two subcommittees were merged. The proposed choice of law provision on ubiquitous infringement was developed and further discussed in the Paris meeting.

The first issue discussed in the Amsterdam meeting concerned the “main” choice of law provision for IP infringements. Most of the Committee members supported *lex loci protectionis*; while only few expressed their preference for market effects approach. Yet, it became clear that *lex loci protectionis* rule could be also criticized due to the lack of clarity. In some countries having less experience with cross-border IP litigation, the law of protecting country is likely to be confused with the law of the forum (*lex fori*). Accordingly, it was agreed that some examples should be provided in the comments to the proposed ILA guidelines. It was also decided to propose a single rule to both registered and unregistered IP rights¹⁰ and to choose a more general language of the provision thus leaving more flexibility for future application of this rule. The second important provision established that party autonomy in IP infringement cases should be allowed.¹¹ The proposed provision clarified three issues: (i) whether party autonomy can be exercised only *ex post* or also *ex ante*; (ii) whether parties can choose applicable law to proprietary issues (such as existence, scope or duration of IP rights), and (iii) whether third parties’ effects should be permissible. However these provisions were not fully discussed in the Amsterdam meeting and therefore could be brought back to the discussion in one of the upcoming Committee’s meetings.

After joining the forces of the two subcommittees, applicable law rule to ubiquitous infringement (including secondary infringement) has been discussed. The proposed provision is primarily based on the ubiquitous infringement rules as suggested in the ALI, CLIP and Joint Japanese-Korean group proposals.¹² It makes an attempt to merge these rules by taking the best elements from each of the proposals, and suggests a more general wording which is assumingly better suited for an international forum. More particularly, the proposed choice of law provision for ubiquitous infringement contains three parts. First, in case of multi-state infringements in connection with the use of ubiquitous or multinational media, the application of a single law (or laws) with an especially close connection to the entire multi-state infringement is allowed. Second, an exemplary list of connecting factors is suggested, that are intended to facilitate the determination of law with an especially close connection. The third part leaves the possibility to any party to prove that, with respect to particular States covered by the action, the solution provided by any of those States’ laws differs from that obtained under the law(s) chosen to apply to the case as a whole. The court must take into account such differences in deciding the case. Finally, the proposal contains a novel provision clarifying that the previous provision for multi-state infringements applies *mutatis mutandis* for secondary (indirect) infringements.

The discussions during the Paris meeting (October 2013) unraveled, as expected, many controversies surrounding proposed solutions for ubiquitous infringements. The members of the Committee discussed about the scope of the rule and whether it should apply only to ubiquitous infringements or also to multi-state ones. Further, it remains open whether a choice of one single law or multiple laws is more appropriate in multi-state infringement cases. Similarly, the opinions within the Committee still differ with regard to the connecting factor (i.e., law with “the closest connection” or “a close connection”) and what factors are most appropriate to determine such close/closest connection. Finally, one of the challenging issues concerns the applicability of the proposed provision to secondary (indirect) infringements. As a result of the discussions and keeping in mind the international audience to which the project is directed, the proposed guidelines are more general than those proposed by the previous legislative proposals.

Initial Title and Ownership

The third choice of law issue relates to the law governing initial title and surrounding matters. The members of the Committee are aware that these issues are rather controversial and that it might not be easy to reach a consensus. Particularly sensitive matters could be related to the justification of the need to protect certain

¹⁰ Contrary to, e.g., the ALI Principles where special provisions are enshrined for registered and unregistered IP rights.

¹¹ Cf. e.g., Rome II Regulation which does not allow for parties’ choice for IP infringement disputes.

¹² Section 321 of the ALI Principles; Article 3:603 of the CLIP Principles; and Art. 306 of the Joint Japanese-Korean Proposal.

stakeholders (e.g., inventors, authors, free lance designers) and the choice of particular connecting factors to determine the law applicable to initial ownership. The Committee carried out only preliminary works on the choice of law problems related to initial title; yet, a number of problems related to initial title were discussed in drafting other jurisdiction and choice of law guidelines. The prevailing approach is that the matters related to title to registered and unregistered IP rights are governed by the law of the state to the territory of which that IP right extends. This means that in order to trace entitlement to IP rights, one must always go back to the national territory for which IP is claimed. A problem arises particularly with respect to intellectual creations made on the basis of commission or in employment relationships, and with creations produced in (transborder) collaboration. IP protected subject-matter (especially in the area of copyright, database rights, designs and patents) is often created in the course of employment or on the basis of commission contracts.

National laws diverge with respect to the allocation of rights in such situations. The result is that rights in the same subject-matter (e.g., software, industrial design, database, audiovisual production) might rest with the employer or commissioning party in one country, while they rest with the actual creator/designer in another jurisdiction. The nature of such allocation of rights also differs from country to country. In some, employers are regarded as initial owners of the exploitation rights, in others employees are presumed to have transferred their rights or having granted an exclusive license for all exploitation acts. The question is whether for initial ownership, a territorial approach is to be preferred, or whether solutions are available that could lead to the identification of one single law to determine initial ownership. The existing sets of legislative proposals drafted in academic circles diverge on this matter. Additional legal complexities arise in cases where the IP-protected content is created by multiple inventors/creators.

The questions the Committee may study further concern (a) the choice of law models leading to the application of the law of one single country; (b) the extent to which legal certainty with respect to chain of title is to be promoted, and possible coordination with choice of law rules for contracts; (c) whether there are “weaker parties” (e.g., authors, performers) whose substantive interests warrant protection, and how could these be reflected in conflict rules.

Recognition and Enforcement of Judgments

Significant progress has been achieved with regard to the provisions on recognition and enforcement of foreign judgments in cross-border IP disputes. The Committee prepared preliminary draft provisions which aim to enhance the cooperation between the courts of different states and promote the recognition and enforceability of foreign judgments. The Committee also aimed that the proposed set of rules adequately strikes the balance between the interests of private parties and the interests of sovereign states. Well-functioning and predictable rules on the recognition and enforcement of judgments on IP matters will serve the interests of IP right holders and also of IP users, whom the rules will protect from repeated litigation. The Committee proposes to adopt a broad notion of “judgment” which should comprise any judgment rendered by a court or tribunal of any State, irrespective of the name given by that State to the proceedings that gave rise to the judgment or the name given to the judgment itself, such as decree, order, decision, or writ of execution. The notion of a judgment also includes court approved settlements, provisional and protective measures, and the determination of costs or expenses by an officer of the court.

One of the main conditions for the recognition and enforcement is finality of the judgment: only those judgments which are final in the rendering state can be enforced. However, the proposed provisions also leave a possibility to recognize and enforce a judgment which is subject to an appeal in the rendering state; but this can be done only under the condition that the party seeking recognition and enforcement provides a security. A rather controversial issue in cross-border IP disputes relates to the territorial scope of injunctions. Unless an injunction states otherwise, the recognizing court should deem the injunction applicable only in the territory of the state of the rendering court.

The Committee also agreed to follow the earlier legislative proposals and provide a list of mandatory grounds for non-recognition. Hence, a judgment shall be not recognized if: (i) a judgment was rendered by default or without providing an adequate notice to the defendant about the proceedings; (ii) a judgment is inconsistent with a prior judgment between the same parties and with the same cause of action; (iii) a judgment was rendered in a state where there are no impartial tribunals or procedures compatible with fundamental

principles of fairness; (iv) a judgment was rendered in circumstances that raise substantial and justifiable doubt about the integrity of the rendering court's decision on the foreign judgment; or (v) a court had no jurisdiction under the provisions of the ILA Guidelines. In addition, recognition and enforcement of a judgment can be refused if it is manifestly incompatible with the public policy of the state of the recognizing court.

New Issues

Goods in Transit

Recently, a number of courts as well as customs authorities have been facing complex disputes where IP right holders seek to stop goods in transit. The difficulties in such cases are due to the fact that goods are protected by IP rights in some, but not all, states (e.g., the plaintiff is a proprietor of IP rights in the transit state, but not in the state of manufacturing or the state of shipment). Such controversies raise various problems concerning choice of governing law and require taking into account public policy and trade-related considerations. A special sub-committee was formed with an objective to analyse possible solutions to such conflicts.

After extensive discussions, the Committee members came to the conclusion that there is no need to propose new jurisdiction or choice of law rules that would specifically deal with the issue of goods in transit. Instead, current jurisdiction and choice of law provisions are deemed as perfectly adequate. In fact, the existing legislation already includes specific provisions on provisional measures. For instance, both article 2:501 CLIP and § 214.3 of the ALI Principles cover goods in transit cases and allow a raft of measures that include obtaining further information (e.g., about the real owner of the goods in transit cases such as the U.K.'s Norwich Pharmacal order¹³). Specifically the latter aspect can be crucial in infringement cases. This is as far as private international law should go. The crux of the matter is therefore one of substantive law. Whilst the Committee recognizes that this constitutes an interference with substantive law, it is nevertheless recommended to clarify in substantive law that (genuine) transit of IP protected goods does not amount to an infringing act. In terms of applicable law the Committee recommends to rely on the application of the *lex loci protectionis* (the standard rule) to goods in transit from the moment they are factually in the country (irrespective of the customs regime). That choice of law rule will determine the substantive law that will decide whether the transit concerned amounts to infringement. Hence, the Committee rejects the alternative suggestion that the applicable law should be the law of the final destination of the goods. The reason for that is the possible manipulation of the destination of goods in transit which could open the door to potential abuse.

Even though it is beyond its mandate, the Committee identified a real need for a precise definition of the concept of "transit" and in as far as possible for substantive trade mark and custom laws to use the same concept. One could require that the documentation accompanying goods in transit should mention the final destination and evidence of the fact that the goods in transit may after all be directed at the transit country should take the goods out of the transit regime. Be that as it may, the current private international law rules are sufficient to enable right-holders and customs to stop goods found in transit if there is a suspicion that this is not a case of mere transit. In other words, a bottleneck can be created, mainly but not exclusively through the use of provisional measures, to avoid a multiplication of the problems were the goods to be released into circulation. Mere transit on the other hand should not be hindered and it was pointed out that mere transit is probably covered by the *de minimis* rule that is e.g. found in the CLIP Principles (Art. 2:202).

Arbitrability of IP Disputes

Arbitration is one of the possible methods for the resolution of cross-border IP disputes. Since the turn of the millennia, the biggest institutional arbitration bodies have been dealing with an increasing number of IP-related cases. For instance, the WIPO Arbitration and Mediation Centre in Geneva administered more than 110 IP disputes by the beginning of 2010;¹⁴ while the Court of Arbitration of the ICC yearly records half a thousand openings of arbitral proceedings, one fifth or one sixth of them concern licensing agreements. The same proportions should prevail in other institutions of international arbitration and before ad hoc arbitral tribunals. A

¹³ *Norwich Pharmacal Co. & Others v Customs and Excise Commissioners* [1974] AC 133.

¹⁴ Trevor Cook and Alejandro I. Garcia, *International Intellectual Property Arbitration* (Kluwer, 2010) 49.

special subcommittee has been created in order to further investigate the issues that may arise in arbitration disputes involving cross-border IP disputes.

The subcommittee prepared a questionnaire which was distributed among the group members. After comprehensive discussions, the Committee agreed that the future Guidelines should deal only with the issue of arbitrability. This position is supported by the fact that the recognition and enforcement of arbitral awards are harmonised throughout the world by the 1958 New York Convention. Hence, the Committee members shared the view that there is no need to deviate from the time-proven solutions of the Convention in the particular area of IP. It was also agreed that the Committee should not aim to develop new choice of law provisions specifically tailored for arbitration of IP-related disputes. After a careful consideration of various alternatives, the Committee recommends that one rule only be applied to determine the law applicable to the arbitrability, at whichever stage the question is raised, namely, proceedings leading to a preliminary finding, an adjudication of the main claim, an appeal or an enforcement of an arbitral award.

The Committee entertains the view that preliminary findings of the arbitral tribunal will enjoy an effect *inter partes* only, but otherwise are in all aspects comparable to main findings. As to the appeal proceedings national traditions for the review of arbitral awards should not be expected to change following the adoption of the Guidelines, as the grounds for appeal are firmly established in domestic arbitration laws. If a state requests its appeal courts to review an award for example under the criterion of “*manifest disregard of the law*”, as is the case under the U.S. Federal Arbitration Act, the Guidelines should not be read as amending in any way that legislative requirement, not even in proposing which is the “law” that enters into consideration when applying the test. There seems to be no leeway for the Committee to present separate rules on conflicts of law concerning the appeal and the enforcement stages.

Security Interests

The use of IP rights as a collateral had been extensively discussed at UNCITRAL: during the preparation of the Legislative Guide on Secured Transactions, it was decided that a number of issues related to the creation, priority, perfection etc. of security interest in IP need particular attention. As a result, a special supplement focusing on IP rights was prepared in 2010.¹⁵ The outcomes of UNCITRAL have played an instrumental role in the preparation of the CLIP Principles.¹⁶ The increasing attention to legal problems pertaining to the use of IP as a security in international financing transactions encouraged the Committee to undertake additional investigations which were included besides other “new” topics. A project was launched in Japan by a member of the Committee aiming to conduct a closer examination of cross-border IP finance transactions and possible implications to the conflict of laws regime. The Committee was informed that a questionnaire was prepared and distributed to more than nine hundred Japanese companies (including ventures, investing companies as well as finance consultants). Although the ratio of responses was relatively low, the replies received clearly showed that at least in Japan, IP is not used as a collateral. The situation appears to be similar also in the UK.

The data collected from Japanese business circles indicate that there is a broad gap between international law-making and actual financing practice. From a private international law perspective, the territoriality principle could be seen as one of the main hurdles which pre-empts the efficient exploitation of IP rights. More precisely, the use of IP rights as a collateral is problematic because usually there are two overlapping registry systems (registries for security interests and registries for certain IP rights). Moreover, in order to raise funds, the proprietor of IP rights usually has to provide a bundle of IP rights of different states. From numerous interviews with practitioners conducted in Japan, it appeared that the transaction costs associated with the securitization of IP are tremendously high which explains why the IP is seldom used as collateral. The Committee is continuing to study the legal implications of IP finance. One of the main objectives is to critically review the UNCITRAL Legislative Guide and the CLIP Principles. The Committee decided that there is a need of a broader comparative study also taking into consideration the structural differences of innovation, technology, and fashion industries; different nature of IP rights as well as the stage business cycle in

¹⁵ See: uncitral.org/uncitral/en/uncitral_texts/security/ip-supplement.html.

¹⁶ Art 3:508 of the CLIP Principles.

which IP rights could be exploited as a collateral. Depending on the outcomes of this on-going research, the Committee will decide what further steps should be taken.

Scope

One of the underlying issues for the work of the Committee concerns the scope of its activities as well as the scope of the proposed Guidelines. Although the mandate of the Committee is to address the confluence between IP and private international law, a special sub-group was assigned with the task to follow the discussions and make suggestions with regard to the scope-related matters. The definition of scope of the future guidelines is taken very cautiously by the Committee because in practice it is often not easy to draw the wedge between IP and other related claims. In the light of such considerations, the members of the “scope” subcommittee divided the tasks to address private international law issues pertaining to (i) personality/publicity rights; (ii) trade secrets and undisclosed information; (iii) traditional cultural expressions; (iv) genetic resources; and (v) unfair competition. Among the issues that are postponed for possible future discussions are geographical indications, design around in patent cases, TV/radio broadcasting rights in sports events, technology transfer agreements as well as data protection, unfair competition/antitrust, know how, data protection and domain name disputes.

Outreach of the Committee’s Activities

Hague Conference on Private International Law

The First Secretary of the Hague Conference, Prof. Marta Pertegás, participated in the Amsterdam meeting of the Committee. In her presentation, Prof. Pertegás noted that in 2011 the Council of the Hague Conference decided to convene an Expert Group to explore the background of the Judgments project¹⁷ and to reassess the possible merits of resuming that project. The Expert Group decided to re-launch the project at two different levels both of which are of direct relevance to the Committee’s work, namely, (a) elaboration of draft proposals in the areas of recognition and enforcement of judgments; and (b) examine if the earlier proposals with regard to the jurisdiction rules could be brought back on the negotiations table. Prof. Pertegás also reported that the Hague Conference decided included IP matters into the scope of the new project and that some IP experts could be contacted and asked to conduct further studies concerning specificities of adjudication of cross-border IP disputes.

The ILA Committee has been watching the development of the so-called Hague Principles on the Choice of Law in International Contracts. The Draft presented in November 2013 only deals with matters related to party autonomy principle.¹⁸ The outcomes of the Committee’s work could be useful for the Hague Conference’s future activities related in different areas. The cooperation between the Committee and the Hague Conference has gained a strong foothold: a representative of the Committee took part in the meeting of the Council of General Affairs and Policy of the Hague Conference on Private International Law (April 9-10, 2013)¹⁹ and direct person-to-person communication regularly takes place among the members of these two organisations.

WIPO

The Committee has established contacts with the World Intellectual Property Organisation (WIPO). The representative of WIPO was invited and participated in the fourth meeting of the Committee, which took place in Paris (October 2013). The participation of WIPO was appreciated by the Committee members because of possible collaboration in the future with the Organisation. This possibility was extensively discussed during the Paris meeting; and it was agreed to collaborate. As one of the feasible short-term objectives, it was suggested to organize an international awareness-raising workshop to highlight the significance of IP-related matters in private international law.

¹⁷ See hcch.net/index_en.php?act=text.display&tid=149

¹⁸ See hcch.net/upload/wop/princ_com.pdf

¹⁹ Council Report available at: hcch.net/upload/wop/genaff2013report_en.pdf.

Concluding Remarks

The Committee will continue its activities to achieve the objectives as previously explained. Particular efforts will be devoted to the further development of the guidelines with a special focus on those areas where consensus has not yet been reached among the Committee members. The Committee reaffirms its commitment to seek the adoption of a Resolution by the ILA which could encompass the Guidelines in that are currently being drafted. The Committee is convinced that such a Resolution would provide a valuable instrument of progress concerning private international law aspects raised by intellectual property. The Committee will continue its activities monitoring the developments in different jurisdictions around the world. It will also make efforts to strengthen the ties with the international organisations more directly involved in this area and to offer its assistance in related endeavors pursued by other bodies.