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**Allocation Of Jurisdiction On Patent Disputes In The Models Developed By The Hague Conference In Private International Law: Asymmetric Countries And The Relationship Of Private Parties**

By

Mariano Municoy\*

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**Introduction:**

It is well known that the current globalization of markets has expanded the use and demand of innovative activity protected through patent rights beyond domestic borders. This paper will address the question of how disputes over patent rights involving parties from different countries could be internationally regulated.

The main object of my analysis will concentrate on the models developed by the Hague Conference in private international law which so far have brought about two major projects of proposed regulation. The first, which here will be called the 1999 Draft, is a model of multilateral treaty that could allow a domestic court to adjudicate disputes concerning foreign patents regardless of any relation between the parties prior to the dispute. The second, called the 2003 Proposal, is a model to enforce exclusive choice of forum clauses included in business-to-business contracts so that a court selected in such a contract may adjudicate any dispute arising therein.

The main questions to be answered here are: a) should patent disputes be included in such proposals? b) If in the affirmative, whether or not both models are appropriate to deal with the existing asymmetries among countries within the current international patent system; c) entering into the specific issue of this paper, which is the allocation of jurisdiction between member states, the last question to address is whether a court other than one from the registering state should have jurisdiction over infringement and/or validity of action given the current principle of independence of patents.

The major conclusions are: i) that under the current international patent system there are some benefits to gain from global litigation of patents. However, that system is not developed enough as to generally allow any country to adjudicate a dispute involving foreign rights regardless of the relation of the parties. Such a system was proposed in the 1999 Draft and provoked much disagreement

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among member countries, particularly about eroding the exclusive jurisdiction of a court from the registering state.

ii) although there are many details to take into account, I shall state that the main problem with such a general system is the existence of member countries with not only different but also opposite incentives to regulate their domestic patent systems taking into account their particular positions within the global market. These different incentives have not become a broad strategy of discrimination between domestic and foreign patent holders in domestic disputes due to the principle of national treatment instrumented in the main treaties covering the regulation of industrial property, the Paris Convention for the Protection of Industrial Property of 1883<sup>1</sup> and the Trade Related Intellectual Property Rights<sup>2</sup>. However, in general terms there have been two major and opposite ways of regulating domestic patent rights: some countries set high levels of patent protection while others set low ones. This last choice of setting low patent protection has been constrained by international treaties but the gap is likely to remain. Indeed, these different structural incentives, based not only on self-interested economic strategies of development but also on different cultural traditions, have increased the transaction cost for private parties to engage in commercial transactions and in producing innovative activity. Likewise they have been a problem for lawmakers trying to develop a mechanism capable of diminishing the use of judicial resources when dealing with international litigation of intellectual property rights: the case when single inventions with parallel patent rights are commercially exploited and infringed in multiple countries. Because most of the literature addressing the convenience of including patent rights within the work of the Hague Conference has been concerned with the dynamic relations between developed countries<sup>3</sup> with symmetric incentives; I will use some examples from Latin-American countries in order to illustrate the different issues arising from patent disputes involving parties from a net exporter and from a net importer country of patentable goods, or countries with asymmetric incentives to regulate and adjudicate disputes involving said assets.<sup>4</sup>

iii) focusing on the asymmetric incentives between those sort of countries, I shall conclude that the models shaped by the Hague Conference should be perfected to align those asymmetric domestic incentives for the benefit of private parties,

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<sup>1</sup> Hereinafter "Paris Convention".

<sup>2</sup> Hereinafter "TRIPs".

<sup>3</sup> Hereinafter "DCs" or countries with symmetric incentives to regulate patent rights and adjudicate disputes involving said rights.

<sup>4</sup> Hereinafter I shall refer to intangible assets although this paper is particularly focused on those assets that can be protected by patents. Moreover I will assume that developing and less developed countries, hereinafter altogether called "LDCs", are net importer countries of said assets unless stated otherwise.

governments as well as indirectly for consumers of goods involved in those disputes.

iv) last but not least, the ultimate aim of this paper is to persuade the reader that the 2003 Proposal not only may overcome most of those problems but may also help to develop a more efficient and fairer international patent system.

In order to do so, I consider it necessary to give a brief overview of some related issues before.

### **Index:**

In Section 1, I shall offer an overview of the current international patent system and then I shall set forth a stated correlation between the paths of increasing international substantive harmonization of patent rights with that of decreasing costs to enforce those rights across domestic borders.

In Section 2, I shall briefly describe the two major current systems dealing with international litigation of patent rights, the European Union (“the EU”) and the United States (“ the U.S.”)

In Section 3, I shall point out the general benefits and costs of having an international system to enforce patent rights.

In Section 4, I am going to briefly describe and analyze the preliminary proposals and ongoing projects developed by the Hague Conference.

In Section 5, I shall offer a normative rationale to deal with the emerging issue of international litigation and enforcement of patents. Basically, I will distinguish between disputes involving related and unrelated parties as well as between whether the countries of those parties have symmetric or asymmetric incentives, which depends mostly on whether they are net exporters or importers of intangible assets.

Finally, I shall apply that rationale to the current discussion about international litigation of patents, pointing out some conclusions.

### **SECTION 1): CORRELATION BETWEEN FURTHER HARMONIZATION OF DOMESTIC LEGAL PATENT SYSTEMS AND DIMINISHING COSTS TO ENFORCE PATENTS GLOBALLY: THE NETWORK OF BILATERAL, REGIONAL AND PLURILATERAL AGREEMENTS.**

The issue of cross border enforcement of patent rights, or international litigation of patents, is embedded in the most general process of international harmonization of intellectual property rights, which in turn has been influenced by the international policy favoring low-barrier-to-trade among nations, hereinafter globalization.

Because of this relation with international policy, economics and (geo) politics, international litigation of patents is an issue emerging from the interaction of those complex factors. Moreover, there are many signals that it will acquire even more importance than today, as will be pointed out throughout this paper.<sup>5</sup>

In order to get a better understanding of said correlation, I shall briefly describe what is called the current “International Patent System”.<sup>6</sup>

### **1). Description and rationalization of the current stage of the “International Patent System”**

The starting point is the principle of territoriality, which was the source of the notion of “independency of patent rights” among countries in the first multinational agreement governing patent rights, The Paris Convention, according to its article 4bis. Under the understanding of this principle, member countries agreed to regulate patents, i.e. establish the substantive rights and obligations derived from a patent right as well as providing the remedies for infringement of those rights, exclusively according to their own domestic law; but for some minor exceptions.<sup>7</sup> Therefore, countries were more than able to choose the particular sort of patent system most suitable for their own particular political, economic and cultural interest.<sup>8</sup>

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<sup>5</sup> The importance of this topic can be inferred from the ongoing projects covering international litigation of intellectual property rights such as projects in The American Law Institute in the U.S.: *Intellectual Property: Principles Governing jurisdiction, choice of law, and judgments in transnational disputes*; the Max Planck Institute in the EU: *International Convention on Jurisdiction and Enforcement of Judgments*; as well as those developed by The International Association for the Protection of Intellectual Property, Special Committee Q 153, available at [http://www.hcch.net/doc/jdgm\\_pd14ip.pdf](http://www.hcch.net/doc/jdgm_pd14ip.pdf) (hereinafter “Committee Q 153”).

<sup>6</sup> It should be pointed out that this is an “abstract use”, as there is not a clear basis to include the notion of “system” in the practice of international patents. However, these legal treaties covering international relations between domestic patent systems and the practice emerging therein together are to be referred to as “International Patent System”.

<sup>7</sup> Independence of patents was not an absolute notion. Its core objective was to allow each country to apply its domestic substantive patent law and procedures without deference to foreign decisions over related foreign patents. However, there were some limits to that discretion such as National Treatment (Art. 2) and Priority Rights (art.4) of the Paris Convention.

<sup>8</sup> However I will focus on the utilitarian arguments pointing out that information has some problems, derived from some characteristics of information that should be taken into account as: *nonappropriability*, (“the fact that producers have difficulty selling information for more than a fraction of its value”); *non-rivalrous*, (“...Information contain ideas. One person’s use of an idea

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does not diminish its availability for others to use”); and *non-excludable*, (“excluding some people from learning about a new idea can be expensive because the transmission of ideas is so cheap”), Thomas Ulen, *Law and Economics*, 126, (Addison Wesley Longman edits., Third Edition, 2000). Using a microeconomic reasoning it is asserted that (“an unregulated market will undersupply creative works that embody ideas... This fact suggests the need for state intervention in the market for information”), *id.* Therefore it is very important to highlight the role of the state in regulating innovative information whatever sort of legal system is to be used under a public choice constraint: whether by the state directly supplying the required information; by public subsidies to generate it; or/and by the creation and enforcement of private intellectual property rights, in this case patent rights. Because of this universal dilemma on producing these sort of public goods, different domestic legal systems have shaped those rights in different ways based on historical, cultural and economic factors. All these issues show the relevance of the legal system in the final result of quality and quantity of innovation production, as (“property rights over intangible assets only exists to the extent the government creates them”), Margaret M. Blair, Gary M. Hoffman and Salvatore P. Tambur, *Clarifying intellectual property rights for the new economy*, in *FROM IDEAS TO ASSETS: INVESTING WISELY IN INTELLECTUAL PROPERTY* (Bruce Berman John Wiley & Sons edits, 2002). Applying this rationale to the international patent legal system and taking into account the growing importance of intangible goods within international trade, it should be obvious that each government has an incentive to choose a strategy in their trade relations with other countries. Basically, the first choice is whether or not to coordinate their own legal regimens to reach some final result when trading with other countries. Then, depending on whether a country is net exporter or net importer of intangible assets, I will assume that the best self-interested choice is to protect local producers in the former group and to free ride on foreign-developed-technology in the latter. The main point is that without international trade and the growing availability of information worldwide, each government might be able to decide, based on its own values, how to solve those dilemmas mentioned above. Because nowadays promoting international trade seems to be the focal point strategy for most governments, it is necessary to analyze the incentives that each government has to coordinate its domestic system within the international system. One of the asymmetric incentives to regulate patent rights between DCs and LDCs is the scope and extension of the public domain which marks the border between novel and anticipated inventions. Currently, there are many “public domains”, each one is created and regulated by domestic patent systems although most of them are interconnected as long as foreign granted and published patents account as prior art in most of these domestic systems. For example the U.S. considers that most of the activity capable of anticipating inventions should happen within the borders of the country except for particular cases. This view can be deemed as protectionist against worldwide activities that should anticipate US inventions, thus creating a shelter for US filers of patents against foreign activities. On the other hand, most

Moreover, the commitments taken under the Paris Convention were incorporated through the enactment of domestic legislation. As far as there was no supranational authority to monitor the compliance with the standards set by that Convention, domestic legislatures and courts were in charge of shaping the international patent system. A premise of that system has been that national courts adjudicate disputes within their domestic boundaries and apply their own domestic law.<sup>9</sup>

When the Paris Convention was the main treaty binding countries on how to regulate patent rights, there was an implicit understanding that some countries were net exporters of intangible assets capable of patent protection while others were net importers. The former were usually DCs while the latter were LDCs. Moreover, those different countries had asymmetric interests regarding the legal treatment of patents and other IPRs according to their specific economic realities<sup>10</sup>. However, under the umbrella of territoriality those opposite incentives

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LDCs may have a rational-self interested basis for choosing an “absolute” standard of novelty narrowing number of (assumed mostly foreign-owned) patents granted therein, thus extending the content of “public domain” to be enjoyed by their habitants through the global dissemination of information.

<sup>9</sup> Graeme B. Dinwoodie, *The Architecture of the International Intellectual Property System*, 77 CHI.-KENT L. Rev. 993-1014 (2002). That notion included even those countries most open to international trade such as the UK, James J. Fawcett and Paul Torremans, *Intellectual Property and Private International Law*, 721, (Oxford University Press, 1998)(“The impression was created that each intellectual property right was only dealt with in the country it had been created. That meant that few attempts were made to have foreign intellectual property related judgments recognized and enforced in any part of the United Kingdom”).

<sup>10</sup> Janice M. Mueller, *An introduction to Patent Law*, 399 (Aspen Publishers, 2003) (“By the late 1800s, national governments and economists determined that these differences between national patent systems could be used as tools to manipulate national wealth. More specifically, they realized that granting patents to foreign nationals generally resulted in a net outflow of national wealth”).

to regulate patent rights were tolerated<sup>11</sup> until major concerns started to come up within discussions such as the level of piracy in LDCs affecting companies of DCs and the path for developing countries to grow economically that usually included the issue of transfer of technology.<sup>12</sup>

Despite its hallmark role, territoriality has been affected by many of those economic, political and cultural factors pushing towards globalization.<sup>13</sup> As a

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<sup>11</sup> Ralph H. Folsom, Michel Wallace Gordon and John A. Spanogle, Jr., *International Business Transactions a problem oriented coursebook*, 730, (West publishing Co., Third Edition, 1995) [“Issues surrounding the transfer of knowledge across national borders have provoked intense discussions during the last three decades...At the core is the desire of third world countries (often advanced developing countries like Brazil, South Korea, Taiwan and Singapore) to obtain protected information quickly and affordably irrespective of the proprietary rights and profits motives of current holders (usually persons from the most developed countries). Developing countries want production processes which maximize uses of abundant, inexpensive labor but which result in products that are competitive in the international marketplace; capital intensive production processes (e.g., robot production of automobiles) may be of less interest. MNEs may be willing to share (by way of license or sale) a good deal of proprietary information, but are reluctant to part with their “core technology”....The very sharing of intellectual property rights across borders raises a risk that proprietary control of the technology may be lost or, at a minimum, that a competitor will be created. For those reasons, international licensing agreements are complex legal documents that need to be carefully negotiated and drafted. Absent licensed transfers, piracy of intellectual proprietary is increasingly commonplace. Indeed, in some developing countries such theft has risen to the height of development strategy”]. The major binding principle was National Treatment of foreign owners that could not be discriminated vis-à-vis domestic patent holders.

<sup>12</sup> Ralph H. Folsom and others, *supra*, note 11, (“The developing nations, the industrialized nations, and the nonmarket economy nations have tried to agree in UNCTAD upon an international “Code of Conduct” for the transfer of technology. Wide disparities in attitudes toward such a Code, which has now gone through many drafts, have been reflected by the developing nations’ insistence that it be “international legal binding”, and the industrialized nations’ positions that it consist of “guidelines” for the international transfer of technology”).

<sup>13</sup> Territoriality is affected by the globalization of markets including the almost perfect mobility of capital across borders and to a lesser extent mobility of persons including scientists as well as legal entities such as multinational companies owning major innovative resources and operating globally.



result there are a large number of plurilateral,<sup>14</sup> regional<sup>15</sup> and bilateral treaties<sup>16</sup> as well as unilateral measures taken by some countries,<sup>17</sup> that as a whole conforms a global network of IPR that results in, at least, a minimum<sup>18</sup> substantive path of harmonization of domestic patent systems. Likewise, many states have ceded some of their sovereignty to coordinate their actions in order to facilitate the acquisition of patents.<sup>19</sup> This increasing role of international agreements aimed to facilitate the acquisition of patent rights shows that owners of a single invention are seeking protection in many countries. Hence, given the adoption of minimum substantive standards for patent regulation and an increasing pressure to coordinate the acquisition of patents across domestic boundaries, the issue to be analyzed herein may conform a third stage within the process of international patent law harmonization<sup>20</sup> by which domestic or regional

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<sup>14</sup> Such as TRIPs which includes the former provisions of the Paris Convention and is managed by the World Trade Organization (hereinafter WTO). Moreover, within organizations such as World Intellectual Property Organization (hereinafter WIPO) there are proposals to extend the current stage of international harmonization by treaties such as the Substantive Patent Law Treaty, see WIPO website, [www.wipo.org](http://www.wipo.org).

<sup>15</sup> As a consequence of the appearance of Regional Trade Agreements such as the European Union that established the European Patent Convention (hereinafter EPC) signed on 5 October 1973 in Munich creating the European Patent Organization; the North America Free Trade Area (hereinafter NAFTA), the African Regional Industrial Property Organization (ARIPO) and the Euroasian Patent Convention.

<sup>16</sup> See, for example, chapters XVII of U.S.-Chile and U.S.-Australia treaties, chapter 16 of the U.S.-Singapore treaty, article 4 of the US-Jordan treaty, article 15 of the US-Morocco treaty, as examples of bilateral agreements entered by the U.S. establishing higher levels of patent protection than those agreed upon TRIPs, which has been called TRIP-plus agreements. Furthermore, this path of bilateral treaties is likely to include Andean countries (Peru, Colombia, Ecuador, as well as Peru and Bolivia) and Panama in the short term.

<sup>17</sup> For the U.S. see Timothy Holbrook "Territoriality Waning? Patent Infringement for Offering in the United States to Sell an Invention Abroad", *U.C. Davis Law Review*, 701, (2004).

<sup>18</sup> As it is assumed for countries signatories of TRIPs, see its article 1 (1).

<sup>19</sup> This was first done by The Paris Convention and, now more importantly, is done by The Patent Cooperation Treaty formed in 1970 (hereinafter PCT) that, according to an important patent scholar, was an effort by US to head the harmonization path vis-à-vis the emerging European Community and its EPC, see Martin Adelman, Randall R. Rader, John R. Thomas and Harold C. Wegner, *Cases and Materials on Patent Law, 1042* (Thomson West edit., Second Edition, 2003) (hereinafter "Adelman, Patent Law").

<sup>20</sup> After citing the achievements of those treaties in helping to acquire patent rights globally, Martin Adelman states: "But few conventions support patentees seeking to enforce their collection

patent rights are to be enforced beyond the boundaries of the state which granted them or “the registering state”.

Before keep going I would like to make clear that my goal is not to guess the future. Instead, just by assuming that there will be further development of international free trade policies throughout the world I think one may conclude that the substantive harmonization of international patent rights may also boost international patent litigation. This does not necessarily mean stronger or weaker intellectual property rights, just that a more finely-tuned harmonized standard comprising somehow most of those domestic standards of patent regulation, may finally emerge.<sup>21</sup> Such a third stage may be not only required by multinational companies making business worldwide or as measures to allow small and medium sized businesses<sup>22</sup> to enter the international markets, but also by governments desiring to save judicial resources and promote an international cooperation that benefits all of its members. In spite of the theoretical aspect of an issue such as international patent litigation, as long as patent rights are conferred for at least 20 years, those obtaining patents today may find out that the expected value derived from them is different when enforced in a system that may emerge in 5, 10 or 15 years. Hence, international regulation of patent rights seems to have a solid ground to be analyzed by lawmakers and scholars as well as to expect it may affect patent practitioners and their clients.

### **1.2) Tension between territoriality and universality.**

In my opinion, one of the best rationales to explain the current stage forming the said “International Patent System” is the trade-off, or tension, between territoriality and the proposals to adopt supranational standards, that here will be

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of patents against increasingly multinational infringers. The result is a fragmented scheme of world patent enforcement often plagued by burdensome litigation fees and inconsistent outcomes”, see Adelman Patent Law, *supra*, note 16, at 1042.

<sup>21</sup> An alternative result is that given the different incentives to regulate IPR between DC and LDCs, the harmonization process may lead to develop two different general standards of patent protection. That is to be determined by many factors which are difficult to estimate accurately at this time. Overall it has been said that (“the risk that intellectual property rights slow the movement of technological capability to developing nations, suggests that harmonization efforts might most wisely consider one common standard for developed nations and a different one for developing nations”) John Barton, *Intellectual property, biotechnology, and international trade. Two examples, prepared for Berne World Trade Forum*, Bern University, August, 28-29 1999, cited by Carlos Correa, *Review of the TRIPs Agreement: fostering the transfer of technology to developing countries*, available at <http://www.twinside.org.sg/title/foster.htm>.

<sup>22</sup> Hereinafter “SMB”.

called universality, in order to regulate the acquisition, use, transfer and finally protection of patent rights across domestic borders.<sup>23</sup>

### **1.3.) Rejecting a unique global patent system.**

Regarding the issue of how to regulate the international patent system there are many factors to take into account. However, for simplicity I shall identify and depart from two theoretically extreme proposals. The first is absolute in terms of keeping multiple domestic systems without much interconnection, which is to be called absolute territoriality. The opposing one is absolute in terms of achieving a global or unique supranational system called here universality. It seems to me that the best choice available on practical grounds is found somewhere in the middle according to a given upward path of globalization requiring some sort of international harmonization of patent rights.<sup>24</sup>

Therefore, the array of optimal solutions should be directed to reach the best balance between both, the principles of territoriality and universality.<sup>25</sup> The main advantage to be gained from the territorial principle is that it allows countries to develop the policies most suitable to themselves through a mixture of legal theories and social values guiding the regulation of patents.<sup>26</sup> On the other hand, a universal set of standards may encourage more efficiency and fairness on global transfer of novel information and knowledge protected by patents.

But if we look at the costs, aside from the political and economic costs to switch towards a universal system, a theoretical argument against such a system is that

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<sup>23</sup> For an in-depth elaboration of this tension between the downward territoriality and the upward international harmonization principles see Graeme W. Austin, *Valuing "Domestic Self-Determination" in International Intellectual Property Jurisprudence*, 77 CHI.-KENT L. R. 1155-1211 (2002).

<sup>24</sup> Janice M. Mueller, *supra*, note 10, at 358, ("Harmonization as applied to patent law refers to efforts to bring the patent law systems of different countries into alignment by reducing or eliminating the differences between them....Harmonization is not unification, which seeks to establish one unified "world patent" system"). This is the starting point of a rationale keeping both principles interacting.

<sup>25</sup> A more unified global patent system is currently being studied and proposed, for example, Paul Edward Geller, *An International Patent Utopia?*, *European Intellectual Property Review* *European Intellectual Property Review*, Vol. 25, 515 (2003).

<sup>26</sup> See a further elaborated concept of domestic self-determination in Graeme W. Austin, *supra*, note 23.

different domestic patent systems allow us to undertake a comparative analysis to test and decide which is the best among many.<sup>27</sup>

Moreover, the costs of judicial errors regarding the legal regulation of innovative activity are actually reduced by the diversification of jurisdictions for each domestic court decides its own cases. Given that the amount of information required to set up the right balance between the social costs of these limited legal monopolies, i.e.: denial of access, versus their social benefits, i.e.: incentives to innovate, is so high, this strategy of diversification may be an optimal solution to diminish the potential error costs in the adjudication process of any international patent system. Therefore, through the use of an increasingly harmonized international standard of patent protection and its enforcement by domestic systems, the overall innovative global activity may not be hurt as much as it might be if a central monopoly-authority were to decide all patent cases. The reason for this is that such a unified adjudicatory system of decisions would have global consequences so that error costs might be increased for all actors involved in these activities, as all-or-nothing is the only outcome of possible global decisions.

Hence, an optimal outcome from the tension between those two principles should benefit governments, producers (both those who invest scarce sources to generate innovation and their competitors who are engaged in creating further innovation), as well as consumers worldwide.

#### **1.4) Interaction between international harmonization of substantive domestic patent law and how they may be globally enforced.**

Many authors agree on the existence of a link, meaning a function in economic language, between a growing tendency towards harmonization of diverse patent systems with less costs of enforcing those harmonized rights worldwide, which is the rationale to assert that “..the application of foreign patent law should be less difficult as the international harmonization of patent law progresses”.<sup>28</sup>

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<sup>27</sup> Graeme B. Dinwoodie, *The development and incorporation of International Norms in the Formation of International Copyright Law*, 62 OHIO ST. L. J., 733, (2001). The same scholar names this function regarding the TRIPs as a “neo-federalist structure”, see Graeme B. Dinwoodie & Rochelle Cooper Dreyfuss, *Preserving The Public Domain of Science under International Law*, in INTERNATIONAL PUBLIC GOODS AND TRANSFER OF TECHNOLOGY UNDER A GLOBALIZED INTELLECTUAL PROPERTY REGIME, (J. Reichman, K. Maskus, eds., Cambridge University Press, 2004).

<sup>28</sup> Fritz Blumer, *Jurisdiction and Recognition in Transatlantic Patent Litigation*, 9 TEX. INTELL. PROP. L.J. 329, \*398 (hereinafter “Blumer Transatlantic Patent Litigation”). The same author says in another publication that “If critical issues such as the scope of protection of a patent are governed by identical substantive law in the forum state and in the state where the patent is valid,

I will not address the topic of substantive harmonization in greater detail but I will state that as the global market expands filing foreign patent applications is required for innovators to acquire substantive rights of protection abroad. This leading free trade policy shared by most countries may go further in the harmonization of patents rights, although not so far as to reach a universal or unified system for the reasons stated above. Hence, the costs of enforcing patent rights worldwide may decrease because a consolidation of multiple claims in a single forum may be easier to deal with, including their enforcement in the related foreign forums.

The graph below illustrates the rationale to develop an international system to enforce patent rights.

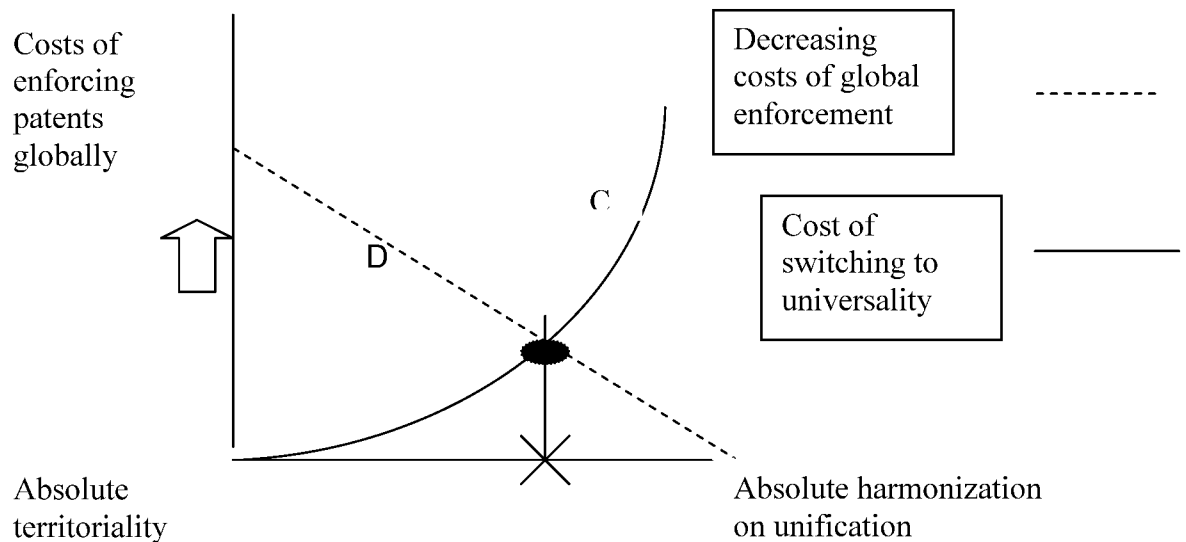
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the enforcement of the foreign patent is easier for the court and the parties and the courts are less reluctant to apply foreign law”, Patent Law and International Private Law on Both Sides of the Atlantic, WIPO, WIPO Doc. No. WIPO/PIL/01/3 (January 2001).

There are also others stating the said correlation between further harmonization of substantive international patent law and its enforcement worldwide: John R. Thomas, *Litigation Beyond the Technological Frontier: Comparative Approaches to Multinational Patent Enforcement*, 27 LAW & POLICY INTERNATIONAL BUSINESS, 277, (1996) (hereinafter “John Tomas, Litigation Beyond...”); Phillip L. McGarrigle, *The Role of Foreign Judgments in Patent Litigation: a perspective and strategic overview*, IDEA 39 J. L & TECH, 107, (1998).

Going even further than just mentioning the said correlation, John Gladstone Mills III, *Transnational Patent Convention for the Acquisition and Enforcement of International Rights*, 84 No.2, Journal of the Patent and Trademark Office Society, February, (2002) (“because the increased technology traded and the increased technical data exchanged in the global economy, the antiquated system of national patent protection presents a roadblock to future sustainable economic growth”).

But this is not an absolute-accepted view, for example Kyle Grimshaw, *International Upheaval: Patent Independence Protectionists and The Hague Conference*, 0020 Duke L. & Tech. Rev. (2001), who argues that given the differences among domestic patents laws the (“international patent system is not ready for a rejection of the independence of patent infringement suits so that neither Hague Proposals nor other similar treaties should include patent rights”). A similar opinion was stated by Rochelle C. Dreyfuss and Jane C. Ginsburg, *Draft Convention on Recognition of Judgments in Intellectual Property Matters*, 77 CHI.-KENT L. REV. 1065-1152, (2002).



Overall, the graph aims to show the stated relation by which globalization led a “dynamic between public international intellectual property standards and the role of national courts”<sup>29</sup> to enforce this array of harmonized patent rights.

The horizontal axis depicts increasing units of substantive harmonization of patent laws from the left to the right until the last point where harmonization becomes a universal-unified patent system. It is important to point out that this graph does not include the dimension of the function representing whether harmonization results in high or low protection of patent rights, although I will assume that most exporters of intangible assets prefer higher protection than importing countries. The vertical axis represents the increasing costs of enforcing patents worldwide, higher from the bottom to the top. D represents the marginal social costs of enforcing patent rights across domestic boundaries, which is a function of the level of harmonization of domestic substantive patent laws.

A universal-unified patent system would present the lower cost of global enforcement but it would sacrifice the benefits derived from having a soft principle of territoriality, which is depicted by C as the marginal global costs derived from losing territoriality.

In order to better understand that relation, let us assume that territoriality is the only paradigm so that a consolidated array of disputes requires applying a multiple-unharmonized bunch of domestic patent laws. Given complexities such as the technical knowledge required to deal with patentable matters, the high translation costs of describing the invention properly in each domestic patent application and the potential bias of domestic courts against properly enforcing

<sup>29</sup> Graeme B. Dinwoodie, *supra*, note 9, at 1009.

highly valuable inventions owned by foreigners, it is clear that the costs associated with international litigation under a strict principle of territoriality are high enough as to make that possibility undesirable. Thus, each patent is filed in each country where protection is desirable. Moreover, each country is to examine their own application and adjudicate potential disputes according to its own substantive law. Under such a system, potential dissimilarities among domestic laws makes best to enforce patent disputes within domestic boundaries.

However, most costs of enforcing patent rights in each country could be diminished due to economics of scale if a single invention protected in many countries can be litigated in a single court having proper technical skills and conducting unbiased legal proceedings. Hence, as long as substantive harmonization increases among countries, the costs to globally enforce those (still domestic) patent rights may decrease and, furthermore, some social benefits from free flow of judgments may be enjoyed.

Thus, even without a universal or unified system that would extinguish the advantages of territoriality, there may be a point of equilibrium where the international patent system enjoys both the advantages of a “soft” territorial principle and the possibility of enforcing patent rights across borders. That theoretical point is depicted in the graph as a black circle. Finding this point in the real world is undoubtedly difficult, not only for the amount and quality of information required but also for the overlapping existence of required minimum standards under the TRIPs with higher levels of patent protection in most DCs and LDCs members of bilateral agreements containing said high patent protection. However, I think that this correlation is the most persuasive theoretical argument to continue analyzing the interaction and complementation between both the process of harmonization of public patent law and consolidation of legal procedures under private patent law. Moreover, I will argue that the current international patent system is too tied to territoriality while there may be some benefits to gain if we could move that global optimal point to the right in the axis measuring “units” of substantive harmonization, assuming this is desired.

Summing up, I have stated that globalization has lead to harmonization of domestic patent systems. After rejecting the adoption of a universal or unique system of substantive patent rights, the next question is how under “a soft” principle of territoriality it is desirable and possible to allow private parties to enforce their rights across domestic borders. The main issues to be coordinated are allocation of jurisdiction among multiple forums, issues of choice of law, and the establishment of mechanism to enforce legal decision in foreign countries. I will focus on the allocation of jurisdiction because its structural design is fundamental for consolidating legal decisions while the choice of law is assumed to be up to the registering state under a soft principle of territoriality.

## **SECTION 2): CURRENT SYSTEMS REGULATING INTERNATIONAL LITIGATION OF PATENTS AND ONGOING PROPOSALS**

### **2) International private law regulating cross border patent disputes:**

The regulation of cross border disputes on patent rights, according to a classification of international law, can be achieved through customary international law (such as unilateral practices of countries), international agreements (either bilateral or multilateral), or general principles common to major legal systems,<sup>30</sup> as well as either by judicial or legislative competence.

There is a “de facto” treatment within the current practice of most states under which no foreign patent right is to be enforced in a domestic court nor is a foreign decision to be enforced therein, except some individual cases.<sup>31</sup> Because it is possible to gain some of the benefits of global enforcement I think that this is not an optimal strategy for the current stage of international harmonization of patent rights and the policies directed to promote international free trade.

Hence, aside from an exclusionary solution, it is possible to trace a classification of potential systems to regulate the international litigation of patents:

#### **a) Unilaterally**

It is possible for a country to develop an “international practice” or customary law establishing either issue<sup>32</sup> or claim<sup>33</sup> preclusion for recognizing and enforcing foreign judgments.

#### **b) Bilaterally**

It is also possible<sup>34</sup> for countries to cooperate either implicitly by using reciprocity or explicitly by signing a treaty establishing issue or claim preclusion.

#### **c) Multilaterally**

This is a different strategy providing the consolidation of multiple claims in a single forum and its enforcement abroad, which requires the existence of a multilateral agreement wherein its member countries agree on the bases of jurisdiction, the applicable laws and the methods to enforce those decisions. The

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<sup>30</sup> Recognized in The Restatement of the Law (Third), Foreign Relations law of the United States, Section 102.

<sup>31</sup> As stated in the “Report of Special Committee Q 153”, *supra*, note 5.

<sup>32</sup> This is a strategy to avoid relitigation in some minimum extension, i.e.: facts.

<sup>33</sup> This is a similar strategy having broader consolidation effects for it not only avoids relitigation of factual issues but also induces private parties to bring similar or related claims before a single court of origin.

<sup>34</sup> There are incentives for states to entering agreements, Brett Frischmann, *A Dynamic Institutional Theory of International Law*, 51 BUFF. L. REV. 679 (2003)(“To the extent that the actions and decisions of one State (or its citizen) may affect the welfare of another State (or its citizen), negatively or positively, there is room for negotiation and potential cooperation between the two States to minimize joint cost or maximize joint benefits”), at 690.



allocation of jurisdiction to decide what countries are allowed to be country of origin on international disputes is a major issue to define because it has very important consequences on the chances of successfully enforcing that judgment in an addressed state. Another important issue is the scope of jurisdiction to be exercised by the court of origin, mainly whether it is allowed to adjudicate disputes about infringement of patent, their validity or both.

Throughout this paper I shall primarily focus on this multilateral approach by addressing the drafted proposals and ongoing projects under The Hague Conference, which has discussed the implementation of such a multilateral system.<sup>35</sup> However, before that task I shall briefly introduce the two major systems used to set forth the framework of the Hague Conference: the European and the U.S. models of jurisdiction.

### **2.1) The European Union.**

So far the only place where cross border patent litigation has been regulated by international agreements is the EU.<sup>36</sup> This is hardly surprising, as the EU has been the leader in taking the strongest actions to develop a “free trade community”, including a premier supranational system for acquiring patents rights.<sup>37</sup>

Although the validity of patent rights is, in principle, an issue of exclusive jurisdiction of the state where the patent was granted according to article 16 (4) of the Brussels Regulation, Dutch courts have found jurisdiction and issued cross border injunctions based on the Brussels Conventions and the EPC. The

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<sup>35</sup> The Hague Conference is an intergovernmental organization working since 1955 “for the progressive unification of the rules of private international law” (according to Article 1 of the Statute of the Hague Conference), see <http://www.hcch.net/> (hereinafter Hague Conference).

<sup>36</sup> These agreements are composed by: Brussels Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters, Sept. 27, 1968, (hereinafter “Brussels Convention”) covering jurisdiction among European Union States; the European Communities—European Free Trade Association: Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters, Sept. 16, 1988 (hereinafter Lugano Convention), extending the Brussels Convention to the European Free Trade Association. Future changes to these agreements seem to be coming, see Amended Proposal for a Council Regulation on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial -Matters, COM (2000) 689 final (October 26, 2000).

<sup>37</sup> I mean the EPC which may be articulated to finally implement the long waited Community Patent Convention (CPC) through regulations, see Christopher Heath, *Harmonizing Scope and Allocation of Patent Rights in Europe- Towards a New European Patent Law*, 6 MARQ. INTELL. PROPP. L. REV (2002).

European Court of Justice was near to deciding the issue of whether domestic courts were able to adjudicate issues of validity of patent brought within actions for infringements of foreign patents in *Fort Dodge Animal Health Ltd. V. Akzo Nobel*, 1998 but the case had been settled before. At the time this paper is being written, the same issue is pending.<sup>38</sup> If this court is to allow such multinational actions within Europe, it will force further harmonization among domestic patent laws including projects implementing regional patent rights for it may lead to adjudicate the issues of infringement and validity<sup>39</sup> in the same court. Hence such a decision may modify the existing rules on jurisdiction under the Brussels Conventions that clearly distinguish infringement from validity of patents each with a separate rule of jurisdiction.

## **2.2) The United States**

This field is mainly regulated by customary international law developed by judicial decisions in the U.S., as “The United States is not party to any international agreement regarding the mutual recognition of judgments, there is no federal statute governing the issue and the impact of federal common law is slight”.<sup>40</sup> Moreover, there is not a clear rule or standard in the U.S. other than the adherence to the comity principle,<sup>41</sup> particularly to enforce foreign judgments.

Despite a general practice of recognition and enforcement of foreign decision on matters other than patents,<sup>42</sup> the Third Restatement of the Foreign Relations Law Section 482 provides: “Patents are considered territorial, having legal effect only in the territory of the issuing state. Accordingly the United States has no jurisdiction to apply its law to validate or invalidate a foreign patent, regardless of the origin of the invention, or the nationality, residence, or principal place of business of the holder of the patent or of any licensee”. However, some patent holders have based legal actions on supplemental jurisdiction and theories of judicial efficiency.

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<sup>38</sup> See *Roche Nederland B.V. v Dr F.J. Primus and Dr M.D. Goldenberg*, at <http://www.patent.gov.uk/about/ippd/ecj/2003/c53903.htm>.

<sup>39</sup> As predicted in dicta in *Expandable Grafts P’Ship v. Boston Scientific*, B.C: (1999) F.S.R. 352 (Hof den Haag), where the court consolidated different cases involving defendants who were part of the same group of companies.

<sup>40</sup> Blumer, *Transatlantic Patent Litigation*, \*380.

<sup>41</sup> Phillip L. McGarrigle, *supra*, note 28 (“The U.S. Supreme Court defined comity as the recognition which one nation allows within its territory to the legislative, executive, or judicial acts of another nation, having due regard both to international duty and convenience, and to the rights of its own citizens, or of the other persons who are under the protection of its law”).

<sup>42</sup> See Section 491 (1) Restatement Third of Foreign Relations Law of the U.S., establishing the common principle of recognition of foreign decisions subject to reciprocity of recognition by the rendering state.

### **2.3) Cases in the US**<sup>43</sup>

Undoubtedly territoriality has been strongly supported while shaping and applying patent law in the U.S. It was not until some decades ago that the U.S. patent system started to take into account foreign activities such as publications for applying the standard of novelty. Likewise foreign prosecution of patents has been used as extrinsic evidence to defeat novelty. These changes induced commentators to state the existence of a diminished territorial principle.<sup>44</sup>

#### **a) Recognition of foreign patent decisions in US**

It is worth considering that the US Supreme Court used the notion of issue preclusion regarding a foreign patent judgment in 1895 in **Hilton v. Guyot**.<sup>45</sup> However, perhaps due to historical and social reasons beyond the scope of this paper,<sup>46</sup> that attitude changed, as reflected in most case law after the beginning of the twentieth Century although with some exceptions. For instance in **Foln Hookless Fastener Co. v. Lion Fastener, Inc.**, 29 U.S.P.Q. 599, 561 (1936), the U.S. Court of Appeals of the Third Circuit relied on a Canadian judicial decision to hold the invalidity of a US patent. There are also precedents where U.S. courts gave deference to their foreign counterparts and patent offices to decide on the validity of patents.<sup>47</sup>

However, The Court of Customs and Patent Appeals stated the irrelevance of foreign decisions involving patent when deciding over domestic ones, in **In re Guinot**, 76 F. 2d. 134, 135-36 (C.C.P.A. 1935). Moreover, its successor, The

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<sup>43</sup> For a partial survey of US cases, see John G. Mills II, Robert C. Highley and Donald C. Reiley III, *Database updated November 2003*, Westlaw Internet legal search engine.

<sup>44</sup> Professor Holbrook states that regarding U.S. domestic substantive patent law, the most important changes have occurred since the Patent Act was amended in 1952, see Holbrook, *supra*, note 17, citing, among others, the change which made foreign activities to defeat the validity of patents for applying the standard of novelty under 35 U.S.C. § 102.

<sup>45</sup> 159 US 113 (1895).

<sup>46</sup> Let us just recall that during the rule of territoriality most countries were engaged in a path of nationalism and protectionism whose abolition has been the goal of the WTO and the former GATT rounds towards international free trade.

<sup>47</sup> See John R. Thomas, *supra*, note 28, \*308, citing holdings such as: U.S. Supreme Court in *Ashcroft v. Boston & Lowell Railroad*, Court of Appeals for the Eighth Circuit in *American Infra-Red Radiant Co. v. Lambert Industries*, and District Court for the Southern District of New York in *Inc., Warner-Jenkinson Co. v. Allied Chemical Corp.*

Federal Circuit, has maintained that precedent over time shaping the “exclusionary rule” regarding foreign decisions.<sup>48</sup>

Some of the reasons to encourage a supranational patent system were expressed in dicta by Judge B. Weinstein in re **Cuno v. Pall**. The case started in New York when Cuno filed an action to declare Pall US patent invalid. While the trial was going on, Pall filed an infringement action in Britain. The British Court declared the patent valid and Pall argued before the US court that the facts found by a foreign court should be taken into account i.e. applying collateral estoppel to factual findings when the foreign patent “describes the same technological invention and makes claims that are in all material ways identical to those contained in defendants’ United States patent”.<sup>49</sup>

The District Court dismissed the motion because of the complexity of trying to use British facts in the American case, although “discovery for the United States case was used in the British action”, as well as the Federal Circuit’s general antipathy to apply collateral estoppel in similar cases. The policy mentioned in one of those cases was that “the public interests in upholding valid patent....outweighs the public interest underlying collateral estoppel”.<sup>50</sup> However, Judge Weinstein stated in dicta the necessity to review the principle of independence of patents under the Paris Convention, which disallows courts to save public and private sources. Moreover, he pointed out that he was not satisfied with disregarding a foreign decision such as the British one because that forum had greater expertise than untrained US judges and jurors.

In **Vas-Cath Inc. v. Marhurkar**,<sup>51</sup> the former had been defendant and was found liable for infringing a Canadian patent by a Canadian Court. Then Vas-Cath Inc decided to sue Marhurkar in U.S. The district judge Easterbrook adopted an even more radical vision against the controlling precedents of not recognizing foreign decision. It was held that “Canadian judgment that patent infringement plaintiff invented dual-lumen catheter tip covered by Canadian patent precluded relitigation of that issue in action for infringement of American patent covering same invention.... , Canadian court’s judgment that Canadian patent covering same invention was not anticipated by prior art was preclusive, even though Canadian court’s finding that a person skilled in art would not have been aware of prior invention was irrelevant in United States.” Despite its strong wording, the case was reversed based on other grounds without any reference to the foreign decision’s issue preclusion effects or the like.

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<sup>48</sup> See John R. Thomas, *supra*, note 28.

<sup>49</sup> Cuno Incorporated, v. Pall Corporation, U.S. District Court for the Eastern District of New York, 729 F. Supp. 234; 1989 U.S.

<sup>50</sup> Plastic Container Corp. v. Continental Plastics of Oklahoma, Inc., U.S. Court of Appeals Tenth Circuit, 607 F.2d 885; 1979 U.S.

<sup>51</sup> 745 F.Supp 517 (N.D.Ill. 1990), rev’d on other grounds, 935 F.2d 1555 (Fed. Cir. 1991).

Currently, that posture towards recognizing foreign decision seems to be clearly in a minority and most of the time the latest cases deny such possibility.<sup>52</sup>

## **b) ENFORCING FOREIGN PATENTS IN THE US.**

Despite a belief that U.S. courts do not enforce such patents, there have been cases holding otherwise. For example in **Distillers Co. v. Standard Oil Co.** 150 U.S.P.Q. 42 (N.D. Ohio 1964) the court found itself empowered to enforce foreign patents and dismissed the difficulties of applying foreign patent law. In **Ortaman v. Stanray Corp**, 371 F.2d 154 (7<sup>th</sup> Cir. 1967) the Court of Appeals for the Seventh Circuit recognized jurisdiction based on pending jurisdiction “if the defendant performed similar acts both in and out of the U.S.”. However that has not been a widely-accepted posture of U.S. courts and in **Packard Instrumental Co. v. Beckman Instruments, Inc**, 346 F. Supp. 408, 409 (N.D. Ill. 1972) the court recognized it had jurisdiction but did not assume it, based on the “forum non conveniens” doctrine, taking into account difficulties such as the enforcement of its decision abroad, translation costs and comity to foreign governmental acts. In **Stein Associates, Inc. v. Heat Control, Inc.**, 748 F.2d 653 (Fed. Cir. 1984) the Federal Circuit stated that “only a British court, applying British Law, can determine validity and infringement of British patents”,<sup>53</sup> without further reference to the sources for that holding and did not recognize to have jurisdiction in order to issue a preliminary injunction preventing the enforcement of British patents in Great Britain.

This last approach was reaffirmed in **Mars Inc. v Kabushiki-Kaisha Nippon Conlux**<sup>54</sup> where the Federal Circuit rigorously applied the doctrine of “forum non conveniens” creating a exclusionary rule for enforcing foreign patents in the U.S. based on some differences between the Japanese and U.S. alleged-infringed-patents, which has been criticized.<sup>55</sup>

Overall, these cases reflect the minority posture for recognizing and enforcing foreign judgments on patent matters. However, the basis of this judicial view may be somewhat disconnected, or overdue, from official statements made by the U.S. government before international institutions such as the WTO and, more important, from the U.S. proposals brought within The Hague Conference.

Thus that protectionist judicial practice denying recognition and enforcement of foreign judgments may change in the near future as put forward by negotiators in

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<sup>52</sup> See of example *Merck & Co, Inc., v Teva Pharmaceuticals USA, Inc.*, United States District Court, D. Delaware No. CIV.A.01-048-JJF. Aug. 28, 2003, as amended Jan. 7.

<sup>53</sup> John R. Thomas, *supra*, note 28 \*320.

<sup>54</sup> US Court of Appeals, Federal Circuit, 1994. 24 F3 1368, 30 USPQ 2d. 1621.

<sup>55</sup> John R: Thomas, *supra*, note 28 \*320.

the Hague Conference.<sup>56</sup> The fact that the executive branch is taking a broader view towards international patent litigation may be based on the recognition and reaction to the same factors damaging the principle of territoriality worldwide. The reason for this institutional lawmaking change may be that the executive branch of the government has greater capacity to overtake a detailed analysis and to implement more “practical” responses to this reality than an overburdened judicial branch. Ultimately, the regulation of international affairs including the regulation of international commerce is under the power endorsed to the Executive branch acting with consent of the Senate.<sup>57</sup>

### **SECTION 3): WHY PROMOTING CROSS BORDER PATENT LITIGATION THROUGH A MULTINATIONAL SYSTEM OF CONSOLIDATING CLAIMS IS IMPORTANT, BUT PROBLEMATIC IN THE SHORT TERM.**

In this section I shall point out and discuss the most common arguments to support and counter the recognition and enforcement, if not the consolidation, of foreign decisions involving patent rights. This is a general overview, and some of the arguments will be used and applied in greater detail below.

#### **3.1) BENEFITS OF CONSOLIDATING INTERNATIONAL PATENT CASES:**

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<sup>56</sup> For example this citation included in the background of the, *Notice of Hearing and Request for Comments on Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters*, (“The impetus behind the request was to gain recognition and enforcement of U.S. judgments in other countries. While U.S. Federal courts generally will recognize and enforce judgments from other countries under state law (see *Hilton v. Guyot*, 159 U.S. 113 (1895), U.S. judgments do not always receive the same treatment abroad”) at <http://www.uspto.gov/web/offices/com/sol/notices/ab25.html> (last visited April 2004). However, the U.S. has taken particular postures towards and against the goal of harmonizing patent law. Anneliese M. Seifert, *Will the United States Take the Plunge Into Global Patent Law Harmonization? A Discussion of the United States' Past, Present, and Future Harmonization Efforts*, 6 MARQ. INTELL. PROP. L. REV., 173 (2002), identifies some factors to be taken into account when analyzing the U.S. view in this matter such as (“(1) the different objectives of large corporations and the small inventor lobby, (2) the differences in philosophy regarding patent laws between the United States and the rest of the world, (3) the different approaches of United States political parties, and (4) the United States' need to help business and individuals protect their technology in a global marketplace by seeking stronger protection abroad and lower international filing costs”).

<sup>57</sup> See U.S. Constitution, Article II Section 2, allocating the power to create the policy governing foreign relations into the Executive and Legislative branches of the Federal Government.

**a) To implement the principles and policies governing international patent law stated in Article 7 of TRIPs.**

Recognizing the difficulties to set the values for leading the development of such system, there is still article 7 of TRIPs, which should to be used as a source of public international law guiding the major goals of international patent litigation. The objectives or policies of TRIPs are: “The **protection and enforcement of intellectual property rights** should contribute to the **promotion of technological innovation** and to the **transfer and dissemination of technology**, to the mutual advantage of producers and users of technological knowledge and in a manner conducive to social and economic welfare, and to a balance of rights and obligations”

In section five I offer a general rationale to guide the implementation of this objective through the international litigation of patent rights.

**b) To promote policies of fairness for private litigants while saving judicial resources.**

Both goals require to establish some sort of preclusion for avoiding multiple or step-by-step litigation.<sup>58</sup> The optimal goal is to discourage relitigation by a loser plaintiff after “having its day in the court” in another forum, as it creates double judicial expenses and increases the private cost of defendants to spend more resources in multiple actions.<sup>59</sup>

However, a multinational system directed to consolidate domestic jurisdictions requires a balance between the efficiency gained by reducing the amounts of litigation and the accuracy or “fairness” of that single judgment. Given that such a system requires its member countries to coordinate their efforts, one of the most important features to design is the allocation of jurisdiction, for were it not to be accepted later by the addressed court, there would be more litigation and troubles for private parties. Furthermore, a balanced system to consolidate overlapping jurisdiction not only is to preclude relitigation but also is to incentive potential parties to select “ex ante”, the most appropriate forum for a particular case. Hence, there are clear benefits for promoting restriction of multiple forum that alleviates dockets to the benefit of private parties, i.e. speed in the decision making process and saving of domestic judicial resources.

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<sup>58</sup> Robert C. Cassad, *Issue Preclusion and foreign country judgments; whose law?*, IOWA L. REV October 1984.

<sup>59</sup> Particularly in the US, litigation costs over patents are clearly high. It has been pointed out that the median cost of litigation on matters with a value ranged from 1 to 25 millions dollars is 1,5 million while those exceeding 25 millions may skyrocket up to 3 billion dollars, according to *American Intellectual Property Law Association, 2001, Economic Survey*, cited in Jonathan Levin and Richard Levin, *Patent Oppositions*, in *Economics for an Imperfect World: Essays in Honor of Joseph Stiglitz*, (R. Arnott, B. Greenwald, R. Kanbur, and B. Nalebuff edits, MIT Press, 2003).

**c) To avoid inconsistent judgments thus promoting uniformity and certainty in international transactions.**

This is a problematic issue emerging from overlapping domestic jurisdictions enforcing related inventions as it was seen in the Epilady cases where domestic European Courts interpreted in different ways the scope of protection for similar patented inventions according to each domestic patent law.<sup>60</sup>

Given that domestic patent law is not fully harmonized, we should not expect a perfect array of identical outcomes for similar cases. This will one of the acceptable “costs” of having a soft territorial principle in the international patent system. However, those differences should not lead to making it impossible for the parties to comply with at least two (opposite) decisions. The latter is the current goal stated in the EU regulation<sup>61</sup> and it should be a desirable goal for a consolidation system of international patent claims, as a second best choice.

As will be remarked below, uncertainty may lead to more litigation or settlement of cases with undesirable consequences for consumers if potential competitors are risk-neutral or risk-averse for less competition leads to less production giving the only producer, the patentee, a market power to charge prices beyond the optimal level according to the scope of his or her patented invention.

**d) To disincentive the unilateral use of domestic law with extraterritorial effects.**<sup>62</sup>

It is clear that in shaping an “international patent system” there may be opposite views and interests.<sup>63</sup> However, a successful system capable of operating in the medium and long term should avoid the abuse of unilateral measures damaging other members to avoid further unilateral retaliatory responses of those affected countries. The use, and sometimes abuse, of instruments such as the Special 301 and the GPS, together with their European counterparts, has been the main

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<sup>60</sup> See Avv. Mario Franzosi, *Three European cases on equivalence. Will Europe adopt catnic?*, available at <http://www.franzosi.com/english/article/legals08.htm> (last visited June 2004)

<sup>61</sup> Article 22 (3) Brussels Convention.

<sup>62</sup> This issue is not only present in intellectual property matters but, as globalization evolves, is included in taxes and antitrust as shown by the efforts to coordinate unilateral measures taken by OECD organization, as well as regarding securities regulation where there has been efforts to coordinate it within the International Organization of Securities Commission, see John Norton Moore, *Extraterritoriality and the Corporate Governance Law*, V 97 No.2, 289, American Journal of International Law (2003).

<sup>63</sup> See, *supra*, footnote no. 8.



tool to force LDCs to raise their level of IP protection.<sup>64</sup> Moreover, regarding the U.S. patent system, the enactment of the “offer for sale” as a source of infringement implied a great potential application of US law abroad, due to its potential application even if lacking the minimum contacts for personal jurisdiction.<sup>65</sup>

The main cause of concern about escalating unilateral retaliatory measures is that even assuming an unbiased and non arbitrary judgment issued by a court of origin its enforcement abroad may constitute a transfer of wealth between nations,<sup>66</sup> thus increasing the pressure for protectionist measures in either way: to protect domestic activity abroad by a net exporter country or to restrict the level of protection of foreign law in a given net importer country. For example, a common forum to litigate patents such as the US, where many foreign companies have assets, may be tempted to unilaterally assume both the role of court of origin and requested state by seizing those assets located within US, which may lead to future retaliatory actions by a group of countries affected by such a conduct unless they also have some of their interests protected. Overall, uncoordinated domestic laws with extraterritorial effects may lead countries to reinforce extreme views regarding patents in the long term. Thus, incentives will be created for extreme countries to go further and become information havens or havens.<sup>67</sup>

**e) To bring greater certainty, uniformity and neutrality along different domestic patent systems which may foster Small and Medium Sized Businesses.**

International Free Trade theories guide governments to open their economies and trade with each other based on their own comparative relative advantages. It has been argued that either international trade only benefits MNEs or it hurts SMB, which cannot compete efficiently with big firms. Despite this debate goes

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<sup>64</sup> For an excellent description of the problems encountered by the U.S. when relying on unilateral measures to assure IP protection in Argentina, see Hernan L. Bentolila, *Lesson from the United States Trade Policies to convert a pirate: The case of pharmaceutical patents in Argentina*, 5 Yale J. L. & Tech. 1.

<sup>65</sup> See Timothy Holbrook, *supra*, note 17.

<sup>66</sup> Because these unilateral practices may result in exporting a “monopoly” on a subject considered to be in the public domain in the importing country, or the other way around.

<sup>67</sup> See *Intellectual Property: Principles governing jurisdiction, choice of law, and judgments in transnational disputes*, Preliminary Draft No. 2, January 20, 2004, The American Law Institute (“Information havens” - states that are perceived as favouring intellectual property users or that move their dockets too slowly to provide effective justice. “Information hells” - states that are seen as favouring intellectual property owners”), at 19.

beyond the scope of this paper<sup>68</sup> and taking into account that most international trade has been done by Multinational Enterprises<sup>69</sup>, there may be some grounds to point out the possibility of gains for SMB from bringing greater certainty and uniformity among domestic legal systems.

For example, some scholars<sup>70</sup> have justified the existence of MNEs as a market failure: relative high cost of cross-borders transactions allow MNEs to find a gap which later becomes a niche only contested by other MNEs. Not only differences among domestic laws and regulations but also relative advantages on raising capital as well as attracting the best managers of knowledge have allowed MNEs to dominate international markets for more than a Century since the end of 1800s.<sup>71</sup> Hence, more harmonization may help SMB and start-up business to compete, or be less affected, with the ability of MNEs to internalize and reduce the risks of substantial differences in domestic laws.

If this is a real explanation about the success of MNEs to operate internationally it will be worth considering the benefits to gain through harmonization, which may

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<sup>68</sup> For a summary of the models which explain the relation between IPRs and legal structures of firms see Oren Bar-Gill and Gideon Parchomovsky, *Intellectual Property Law and the Boundaries of the Firm*, Harvard John M. Olin Center for Law, Economics and Business, discussion paper No. 480, (“Only legally protected inventions, i.e. patented inventions, may be traded; pre-patent stages of the innovation process may not. Consequently, by force of law, rather than by the guidance of economic principle, pre-patent innovation must be carried out within the boundaries of a single firm”). A similar rationale may apply for the international market of innovative products. In fact this have been recognized as a problem for the transfer of technology to LDCs. Carlos Correa cited authors pointing out that “a decline in the importance of contractual or non-equity modes of technology transfer has been observed in several studies... Internalized forms of technology transfer (i.e. those taking place intra-firm) are more likely to be preferred by technology holders when the technology changes rapidly and when potential recipients may pose competitive threats in world markets as future competitors”, see, *supra*, note 21.

<sup>69</sup> Hereinafter “MNE”. David K. Eiteman, Arthur L. Stonehill, Michael H. Moffett, “MULTINATIONAL BUSINESS FINANCE (Addison-Wesley Series in Finance, Tenth Edition 2004) (“Multinational enterprise is defined as one that has operating subsidiaries, branches or affiliates located in foreign countries... MNEs are headquartered all over the world. Many of them are owned by a mixture of domestic and foreign stockholders.... The transactions are usually managed from a global perspective rather than from the perspective of a single country”), at 2.

<sup>70</sup> *Id.*

<sup>71</sup> Another possible choice for MNEs to internalize the legal differences among domestic patent systems is the capability to globally acquire or to negotiate a concurrent use with a start up firm having a valuable patented invention to gain more market power, although this strategy is increasingly subject to antitrust scrutiny in most DCs.

allow SMB to conduct business more efficiently and to serve international markets.<sup>72</sup>

### **3.2) DISADVANTAGES AND OBSTACLES OF INTERNATIONAL PATENT CONSOLIDATION:**

#### **a) Technical background required to analyze the legal requirement for patentability, validity and infringement of patents.**

This is a commonly stated justification against a free flow of patent judgments. It is true that there are large differences in the technical background among domestic patent offices and courts resulting in different levels of knowledge gained by “learn-by-doing” favoring those offices with more innovation activity to oversee. Likewise there are huge differences among the operative budgets of patent offices. As a result there is a dissimilar capacity to properly examine the accomplishment of requirements for patentability and to deal with disputes regarding infringement and validity of patents.<sup>73</sup> Yet regarding these differences there are some further considerations to make.

First, even in the US patent system the precision and expertise can be partially adjudicated to the administrative agency conducting examinations, the USPTO, and to the patent bar that is required to deal with the complexities of the U.S.

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<sup>72</sup> The impact on SMB will ultimately depend on the rules of the international patent litigation game. If very flexible rules on jurisdiction for infringement action are taken, the search cost to avoid infringement for SMB will rise as will be discussed below.

<sup>73</sup> However, some Latin American countries have made efforts to set specialized courts to deal with such complex issues as patents. For example, “On September 30, 1991 Chile enacted a new industrial property law (that) also created a special Court of Appeal for industrial property matters, the one which may review, revoke or confirm any decision of the administrative authority. These special Court of Appeal also deals with plant breeders rights cases”, Mr. Sergio Escudero, presentation at “APEC INDUSTRIAL PROPERTY RIGHTS SYMPOSIUM TOKYO, AUGUST 1996”, available at [http://www.jpo.go.jp/shiryou\\_e/toushin\\_e/kenkyukai\\_e/chile.htm](http://www.jpo.go.jp/shiryou_e/toushin_e/kenkyukai_e/chile.htm) (last visited July 2004).

legal patent system such as the peripheral system to draft claims<sup>74</sup> and the “first to invent” legal standard for allocating ownership of inventions. The reasons are not only that judges are not required to have any scientific background in order to decide a case but also the use of juries to reach a final decision regarding infringement, as Judge Weinstein expressed in *Cuno* case.<sup>75</sup>

Second, there is the emerging debate about the trade off between ex-ante control over the “quality of patents” by the patent office examination process (called “Examination System”) and ex-post market control (called “Registration System”),<sup>76</sup> which may affect the presumption of validity of already granted patents,<sup>77</sup> The main difference is that in a Registration System the present value of the large public expenses incurred by patent offices to closely examine patent applications are diminished if that scrutiny is taken by private parties through litigation on the validity of already granted patents, without such a close examination of patents.<sup>78</sup>

One may argue that based on a self-interest rationale, net importer countries of intangible assets could avoid spending large amounts of public funds on examination procedures if net exporter countries are to properly examine

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<sup>74</sup> F. Scott Kieff, *The case for Registering Patents and the Law and Economics of Present Patent-Obtaining Rules*, 45 B.C. L. REV. 55 (2003), (“A determination of infringement under a central claiming approach requires the court to determine the heart of the invention to justify a judgment of infringement. A determination under peripheral claiming requires the court to determine only the outer bounds of the claim. Anything within those bounds infringes and anything outside does not”), at 55. Therefore, US patent lawyers have to decide carefully how to claim broadly enough to gain further scope of rights while also avoiding to be anticipated by prior art. The expertise required to deal with these system might explain the requirement for scientific background that is a standard in the legal market for firms in the US.

<sup>75</sup> It is noteworthy that even the Federal Circuit, which is the forum consolidating most appellate disputes in US, is not required to have a technical background. Overall, Professor Martin J. Adelman has said that the use of juries has created “a system of justice that is basically a lottery”, cited by Francesco Parisi and Kimberly A. Moore, *Rethinking Forum Shopping in Cyberspace*, 77 CHIC.-KENT L. REV. 1325 (2002), footnote 19.

<sup>76</sup> This debate has been imposed after critics pointed out the low quality of patent granted by the USPTO, see Mark A. Lemley, *Rational Ignorance at the Patent Office*, 95 NW U. L. REV. 1495 (2001), particularly his citation of critics at footnote no. 1.

<sup>77</sup> See 35 U.S.C. § 282.

<sup>78</sup> A main argument for a Registration System is that “information (to decide the validity of patents) is more cheaply obtained, provided, and evaluated by private parties, including the patentee and competitors of the patentee, than by the government” F. Scott Kieff, *supra*, note 74, at 19.

counterpart applications beforehand. The argument is more compelling if importer countries do not have an absolute standard of novelty and rely on some sort of “de facto” Registration System, which may allow them to invest public resources only in the last stage where a certain social valuable patent is litigated. As an example of such possibility the Argentine Patent Office issued a resolution<sup>79</sup> which allowed it to accelerate the prosecution of prior pending applications having foreign counterparts successfully prosecuted in some countries with similar patent law to Argentina that also complied with the requirements of patentability, subject to some other conditions. Undoubtedly, this is a free ride on costly examinations conducted by foreign offices, which might be an efficient one-shoot strategy to save public funds and alleviate dockets.

The result of these debates may have important consequences on a cost-benefits analysis of international litigation of patents. Were most countries<sup>80</sup> to decide for a “Registration System”, the assumption that a granted patent is valid, which is based on the fact that the patentability requirements were closely studied during the examination, should be relaxed<sup>81</sup> so that a future increasing role of litigation to control the “quality of patents” would also have implications for an international system to litigate patents. Regarding the lack of technical and financial capabilities of LDCs, there is also the obligation of DCs to assist LDCs in reaching the required capacity to implement international obligations according to TRIPs, article 67. Overall, were these changes to happen<sup>82</sup> the debate about the expertise and technical background of a decision maker (examiner, judge, jury or arbitrator) should be extended.

### **c) Resistance of countries to give up their sovereignty on innovative activity – Patent rights under the act of state doctrine.**

The “act of state” doctrine<sup>83</sup> has led to distinguish among intellectual property rights according to the level of implication of the administration in their creation,

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<sup>79</sup> Resolution no. P-263-03, 16<sup>th</sup> December 2003 available at INPI website, [www.inpi.gov.ar](http://www.inpi.gov.ar), only in Spanish.

<sup>80</sup> As pointed out through the Argentinean example, for LDCs there may be incentives to rely on examinations already made by a foreign patent offices or by WIPO for international applications under the PCT thus avoiding expending public and private resources until litigation arises.

<sup>81</sup> If not eliminated as pointed out by Kieff, *supra*, note 74, at 17.

<sup>82</sup> Let us recall that under TRIPs countries have plenty of room to implement the required minimum standards.

<sup>83</sup> Defined in The Restatement Third of the Foreign Relations Law of the United States (1986) § 443 (1) as: “In the absence of a treaty or other unambiguous agreement regarding controlling legal principles, courts in the United States will generally refrain from examining the validity of a taking by a foreign state of property within its territory, or from sitting in judgment on other acts of a governmental character done by a foreign state within its own territory and applicable there”.

registration and protection. Obviously industrial rights are largely created with a concurrent active participation of some official branch of a government, especially patents for an applicant has to “negotiate” the award of the title with an examiner. This doctrine applies to trademarks in lesser extent and is very different for copyrights and related rights.<sup>84</sup>

Basically, the rationale is that only a court, or the Patent Office in some states such as in Japan, of the country that granted a patent should have jurisdiction to invalidate it later.

It goes without saying that this doctrine may be necessarily affected not only by the globalization process creating supranational entities empowered with former sovereign rights of countries,<sup>85</sup> but also by market forces demanding more efficient mechanism to solve disputes. This “judicial globalization” is noted for example by the increasing use of arbitration allowing a no governmental decisionmaker to treat both validity and infringement of registered patents. Besides the movement towards allowing arbitration over validity of patents in some countries, the great number of LDCs that joined the New York Convention<sup>86</sup> during recent years has put pressure on countries to design better systems to solve international disputes.<sup>87</sup>

Despite the importance of international arbitration there are some points to underline. In general terms, the function of both systems seems to differ. On the one hand an optimal system for consolidating international litigation is to achieve the goal of protecting legitimate interest affected by the patent title in the most efficient and fair possible way, which requires the decision to have erga omnes effects. So relying only on arbitration would have important social costs for “unlike many other settlements of litigation, settlements of patent litigation between rivals by their nature implicate competition, and thus tend to have effects on third parties, most notably (but not only) customers of the litigation parties”.<sup>88</sup>

So only using arbitration may not serve the function of avoiding infringement between unrelated parties but of solving unforeseeable events between related parties, for example parties in a license contract. There are also other undesirable features if we were just to rely solely on arbitration including “its

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<sup>84</sup> This is a rule of thumb with caveats in some countries, i.e. countries requiring registration of copyrights.

<sup>85</sup> See for example European Community Patent project.

<sup>86</sup> United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards, New York, 10 June 1958, (hereinafter New York Convention).

<sup>87</sup> See parties and dates of entry at <http://www.uncitral.org/> website.

<sup>88</sup> Carl Shapiro, *Antitrust Limits to Patent Settlements*, 34 Rand Journal of Economics No.2 (2003) at 391.

inability to generate precedents and to render a clear-cut victory because arbitrators have a reputation for “splitting the baby”.<sup>89</sup>

However, the increasing use of international arbitration of patents may open the gates to international litigation as both share some common conditions. For instance they both require the effective enforcement of the arbitral or judicial decision in the addressed state. This last issue of enforcing arbitration procedures is particularly important in LDCs because most of them have usually found reasons to deny their effective enforcement within their territories based on “public interest” theories.

One practical reason for domestic governments to keep some power over patent regulation is the relevance of public funding of R&D activities, meaning taxpayers paying in order to promote innovative products. A 1999 OECD report stated that in the U.S. 66% and in the EU 56% of R&D was carried out by industry; other sources provide information about Latin American countries like Brazil and Chile with over 50% government funding for R&D, while in Argentina it was 46% and 32% in Venezuela.<sup>90</sup> These numbers show that governments have a direct role in promoting and enjoying the fruits of innovative activity, even though they may ultimately refer to other public goods associated to R&D such as national defense in the U.S.<sup>91</sup>

Moreover there are huge disparities regarding the availability of financial resources for an efficient use of patents as economic-welfare-tools. It has been stated that “the distribution of the capabilities to generate science and technology gives rise, in fact, to the most dramatic North-South asymmetry...World R&D expenditures are very asymmetrically distributed: developing countries, the most recent estimates, only account for about 4 per cent of global R&D expenditures”.<sup>92</sup> Moreover, the use of patents rights as pure economic-welfare-tools has been discussed, and rejected, by most DCs since the first international negotiations where prevailed the view of patents as private rights.<sup>93</sup> Hence the concurrent

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<sup>89</sup> See Julia A. Martin, *Arbitrating in the Alps Rather than Litigating in Los Angeles: The Advantages of International Intellectual Property-Specific Alternative Dispute Resolutions*, 49 STAND. L. REV. 917 (1997), at 955.

<sup>90</sup> See Suzanne Scotchmer, *The Political Economy of Intellectual Property Treaties*, Working Paper 9114, NBER Website, <http://www.nber.org/papers/w9114>, (last visited February 2004).

<sup>91</sup> See 35 U.S.C. Chapter 18, *Patent Rights in Inventions made with Federal Assistance*, particularly § 200 “Policy and objective” and § 204 “Preference for U.S. industry”.

<sup>92</sup> Carlos Correa, *supra*, note 21.

<sup>93</sup> The discussion about patents as private right versus patent as public policy tools has arisen since the Vienna Conference prior the Paris Convention, see Emerson Stringham, *Patents and Gebrauchsmuster*, in 36 INTERNATIONAL LAW, cited in Graeme. B. Dinwoodie, William O

use of public and private investment may be a point of discussion in developing a more “global” patent system given the connection between innovative activity with other domestic policies such as public defense and access to public health. Overall, managing the expenditures on R&D to serve other particular social goals is to depend on more variables than just international patent litigation, which in turn may indirectly help to reach those goals if it brings more certainty and efficiency into the global market of innovation.

For developing countries, particularly those with capacity to free ride or compete on foreign technology, there would be even stronger incentives for using patents as welfare instruments. However, limiting this opportunity was one of the goals DCs achieved with TRIPs.<sup>94</sup>

**d) Substantial differences on procedures among countries:**

Many issues to be included here are derived from differences among the discovery systems of common law countries and those ones based on civil law. However, the fact that most countries rely on a first-to-file standard to establish ownership of inventions makes the requirement of a “powerful” procedural discoveries less necessary than in the U.S. Moreover the U.S. is already very open to some facts that occur abroad not only to determine infringement actions but also issues of validity of patents<sup>95</sup>.

**e) Lack of a central authority to reexamine a decision taken by a court affecting another court.**

This may happen in all fields where international private law can be used for beneficial purposes. Still it is desirable to explore a sort of central authority of last resort. For example, it may be a good idea to empower an existing authority such as the Council of WTO to review questions of law in the application of international accepted standards of patent law hence promoting further

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Hennessey and Shira Perlmutter, *INTERNATIONAL AND COMPARATIVE PATENT LAW*, (Lexis Nexis edits., 2001), at 305-314

<sup>94</sup> For example, by limiting the use of compulsory licenses according to article 31 of TRIPs. The willingness and necessity of LDCs to use patents as welfare tools has showed up in, for instance, the discussion about access to medicines covered by the Doha Agenda in Public Health Access. However some LDCs may follow a restrictive strategy to grant compulsory licenses such as Chile, perhaps due to the fact that it does not have a level of industrial development to compete with DCs. Compulsory licenses can be granted in Chile “only in case of monopoly abuse of the right holder, circumstances which are qualified by a special court which deals with economic cases. Compulsory license may be grant only under non exclusive basis, must have a specific duration and the licensee must pay a royalty to the right holder” Sergio Escudero, *supra*, note 73. The scope for granting compulsory licenses is even greater in Argentina and Brazil.

<sup>95</sup> See Holbrook, *supra*, note 17.



harmonization. As a minimum, those decisions issued by the adjudicatory bodies to solve disputes within TRIPs-WTO should be followed by national court as principles of public international intellectual property law.

**f) Increasing the opportunistic use of forum shopping.**

Given the differences in substantive law and procedures among countries, which cannot be solved by a central “supranational” authority, there are concerns about some undesirable consequences of having overlapping jurisdictions in consolidating patent cases. This is particularly acute in relation with countries which hold opposing interests regarding patent regulation such as DCs and LDCs.

The starting point is that there are countries with asymmetric incentives to regulate innovative activity so that they may finally become IP hells or havens respectively.<sup>96</sup> These different incentives have an important effect in a system to consolidate claims over patent infringement and validity because they create ex-ante asymmetries between potential parties of a dispute.<sup>97</sup> Ex-ante asymmetries means that the role distribution between who is to be plaintiff (owners of intangible assets in DCs-IP-hell countries) and defendant (free riders based in LDCs-IP-havens) is not randomly established but decided by strategic behavior of one or both of the parties before entering into a relation or choosing a certain unilateral conduct such as whether to infringe a patent right or not in a selected jurisdiction. The existence of ex-ante asymmetries creates distributional and efficiency effects, which constitute the most harmful effects of forum shopping.<sup>98</sup>

**Distributional effects:** Forum shopping may be endured when it occurs within domestic borders for it is at least a redistribution of wealth among parties pertaining to the same country or region. That is not the case in international cases where a domestic judgment may mean a redistribution of wealth among different countries. In such a case there may be an incentive for governments to protect their own manifestations of wealth which may further incentive retaliation measures among countries so that by these strategies even greater costs are imposed on those who engaged in international transactions. Even worse, the

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<sup>96</sup> Regarding the different incentives to regulate patents and other IPR see Carlos Correa, *Managing the Provision of Knowledge: The Design of Intellectual Property Laws*, in PROVIDING PUBLIC GOODS – MANAGING GLOBALIZATION, (I. Kaul, P. Conceicao, K. Le Gaulven and R. Mendoza edits, Oxford University Press, New York, 2003), and Paul J. Heald, *Mowing the playing field: addressing information distortion and asymmetry in the Trips Game*, 88 MINNES. L. REV. (2003).

<sup>97</sup> See Francesco Parisi and Kimberly A. Moore, *supra*, note 75.

<sup>98</sup> For a discussion over those harmful and benign effects of forum shopping see Kimberly A. Moore, *Forum Shopping in patent cases: Does geographic choice affect innovation?*, 79 N.C. L. Rev. 889 (2001).

establishment of information hells and havens is further encouraged in the long run.

**Efficiency effects:** This is based on the idea that “when uncertainty in the application of a legal standard exists, parties will either overcomply or undercomply with the legal standard, modifying their behavior more than or less than the law requires”.<sup>99</sup> Regarding patent rights, overcomplying means potential competitors choosing not to design around a particular patent so that its owner gains more market power than that which is optimally desired. On the other hand, undercomplying means potential competitors choosing to infringe a particular patent instead of negotiating a license or assignment, which diminishes the value of the patent protection damaging the function of patents as incentives to produce, disclose and commercialize innovative activity. These inefficient outcomes of parties over or undercomply with patent standards is to be treated in Section five in more detail.

It is important to note here that aside from those harmful effects on global innovative activity, the goals of promoting certainty and consistency of judgments to encourage international transactions are significantly damaged by forum shopping. If such a system is to increase the transaction costs for parties to engage in that sort of business, a system to consolidate patent disputes with such effects should be avoided at all. Otherwise the public confidence in the system, as well as its sense of fairness, will disappear.

That the choice of a forum in patent litigation is not a linear equation depending just on the role of the promoter of the action is even true for the U.S., where the creation of the Federal Circuit might reduce the uncertainty about the applicable patent law in similar cases.<sup>100</sup> Thus, bearing in mind that any generalization about how the allocation of jurisdiction among asymmetric countries influence the pay off of each interested actor is a complex task, any proposal of such a system should be designed carefully.

However, there may be partial solutions helping to reduce, at least to some extent, some of the incentives for plaintiffs to select pro-patentee forums that award large sums of damages.<sup>101</sup> As long as different domestic systems are interconnected by public and private international law, the free flow of decision has an ultimate filter: the enforcement of rights and the provision of remedies as, at maximum, it would be determined in the court addressed, or in the patent office in the hypothesis that part of the remedy is the cancellation of the patent.

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<sup>99</sup> See Francesco Parisi and Kimberly A. Moore, *supra*, note 75, at 6.

<sup>100</sup> It has been recognized that even within the U.S. the outcome in patent litigation is very volatile without being related to any strict factors, see Kimberly A. Moore, *supra*, note 98.

<sup>101</sup> Other proposed solutions such as the use of specialized courts and reducing the venues (available jurisdictions) to adjudicate patent cases, seems to be at odds with any proposal extending the enforcement of patents worldwide. See Kimberly A. Moore, *supra*, note 98.

Given the U.S. tradition allowing punitive damages as well as the inclusion of broader items to determine compensatory damages, not only other DCs such as the EU but most importantly LDCs<sup>102</sup> may find it unreasonable to fully enforce those decisions containing exorbitant damages.

It is possible to find similar devices within legal instruments such as TRIPs<sup>103</sup> and NEW YORK CONVENTION.<sup>104</sup> Regarding the 1999 Draft, its Article 25(1) obliges an addressed court to enforce a foreign judgment under the exceptions established in article 28, particularly clause (f) that provides for the “recognition or enforcement would be manifestly incompatible with the public policy of the State addressed” as a ground to deny enforcement.

Similarly article 15 of the 2003 proposal<sup>105</sup> creates a device to compensate the potential private benefits derived from forum shopping if a plaintiff seeks to

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<sup>102</sup> The next are examples of Latin-American countries. Damage awards in Mexico are no less than 40 percent of the public selling price of the infringing products or services according to Mexican Industrial Property Law Article 221 bis. Moreover, there is no statutory provision to increase the award if there is willful infringement on regarding the possibility for the winner party to recover its attorney fees. In Argentina, damages might include moral damages if the infringer device “provokes a loss of prestige of some, due to either a defective production of the invention or to an inappropriate presentation of same”. Even more, it is open to discussion whether legal entities i.e.: corporation might be awarded with such relief, see Carlos Octavio Mitelman, *Responsibility for damages derived from non-compliance with trademarks and patents*, available at [http://www.obligado.com.ar/ing\\_articulos\\_trademarks.asp](http://www.obligado.com.ar/ing_articulos_trademarks.asp)). In Brazil, article 44 paragraphs 3, of the Patent Law limits the damages award to the contents of subject matter encompassed within the claims.

<sup>103</sup> See TRIPs article 45 (1).

<sup>104</sup> See article V (2) providing that “Recognition and enforcement of an arbitral award may also be refused if the competent authority in the country where recognition and enforcement is sought finds that: **(a)** The subject matter of the difference is not capable of settlement by arbitration under the law of that country; or **(b)** The recognition or enforcement of the award would be contrary to the public policy of that country”.

<sup>105</sup> See *Work. Doc. No 110E by the Special Commission on Jurisdiction, Recognition and Enforcement of Foreign Judgments in Civil and Commercial Matters (21 to 27 April 2004)*, Article 15 Damages: “1. A judgment which awards non-compensatory damages, including exemplary or punitive damages, shall be recognized and enforced to the extent that a court in the requested State could have awarded similar or comparable damages. Nothing in this paragraph shall preclude the court addressed from recognizing and enforcing the judgment under its law for an amount up to the full amount of the damages awarded by the court of origin” and article 15 “2. B

benefits from a foreign jurisdiction which usually grants larger damages than the addressed courts. This situation already exists between DCs and LDCs so such a mechanism is of great importance.

Overall, I think that the limit for enforcing foreign decision awarding large amount of damages is an appropriate tool to equilibrate substantial differences in domestic patent law, which in turn reduces the transfer of wealth between asymmetric countries.<sup>106</sup>

#### **g) Changing the rules may affect rational expectations of investors in IP.**

In the case of countries and regions where most investors in intangible assets are located, such as the U.S., the EU and Japan, allowing the court of those countries to decide validity and, to a lesser extent, infringement in cases involving foreign patents, particularly if they were granted in developed ones, may have adverse consequences in the expected rate of returns as assessed when the investment was made.

This effects may be even greater also those who invest in financial markets providing the funds for innovative-risk activity if patent rights are to have a measurable and socially desirable signaling function in those markets.<sup>107</sup> Were this to happen, certainty and predictability for financial markets would become other hallmark goals therein.<sup>108</sup>

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In no event shall the court addressed recognize or enforce the judgment for an amount less than that which could have been awarded in the requested State in the same circumstances, including those existing in the State of origin”.

<sup>106</sup> A contrary vision regarding the use of such a cap system is taken by John Gladstone Mills III, *supra*, note 28, at 18. On the other hand, the positive view is also sustained by Arthur T. Von Mehren, *Drafting a convention on international jurisdiction and the effects of foreign judgments acceptable worldwide: Can the Hague Conference project succeed?*, 49 Am. J. Comp. L. 191-202 (2001), at 3.

<sup>107</sup> See Clarisa Long, *Patent signals*, 69 U. CHI. L. REV. 625 (2002), (“Rather than focusing on patents as a mechanism for privatizing information, I will instead frame patents as a means of credibly publicizing information), at 627. I will not go deeper into this issue, however, it may be helpful to analyze whether that signaling function of patents can be better regulated through trademark law than through patent law, as the former has been particularly applied to protect the creation of reputation, which informs not only consumers but also investors about the quality of those intangible assets protected by a trademark right.

<sup>108</sup> Also this interconnection between financial and patent provisions may lead to unilaterally apply US securities law overseas in order to protect patent-financial-investments, which for of all the foregoing is not very likely to help develop a sustainable system for enforcing and recognizing cross border patent disputes.

For example one of the top patent practitioners in Chicago whose view can be considered to fairly represent the majority opinion of the US patent bar, says: “I am not sure how US firms would react to the proposal that one court (e.g., in the US or in Germany) could decide the fate of all corresponding patents issued by a number of different countries. Certainly there would be more efficiency and lower cost, and the prospect of being able to use a US court would be attractive to most US firms. Still, not all corresponding patents truly have similar claims, and the prospect of putting the entire portfolio of patents in the hands of a single judge and/or jury might cause apprehension”.<sup>109</sup>

This statement reflects a clear concern within most patent bars of developed-net exporters of intangible assets countries about the potential costs of global enforcement in terms of certainty.<sup>110</sup> However, the ongoing globalization of markets and the growing dependence of developed countries on intangible rights<sup>111</sup> might make it inevitable for those countries to face these sorts of risks, so that this matter may bring further tensions between private rational expectations versus policy regulating private property. It would be another issue to analyze how much of those private rational expectations deserve legal protection or not.<sup>112</sup> Let us just say that if the protection of some domestic financial market were to become an explicit major concern of the international patent system one would wonder why the U.S. government proposed and still maintains an interest in promoting international patent litigation.

#### **PART FOUR: USING A MULTINATIONAL TREATY, THE HAGUE CONVENTION FOR RECOGNITION AND ENFORCEMENT OF FOREIGN JUDGMENTS**

Having seen the major pros and cons for cross border litigation, I shall describe and analyze the legal instruments developed by national officials in the Hague Conference covering patent matters.

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<sup>109</sup> Professor Brad Hulbert is a partner with McDonnell Boehnen Hulbert & Berghoff and he is also co-director of Chicago-Kent’s Program in Intellectual Property Law.

<sup>110</sup> See report special committee Q 153, *supra*, note 5.

<sup>111</sup> As reflected in the last numbers describing the National Current Account of the U.S., which depicts the data of different sectors conducting international trade.

<sup>112</sup> It may be interesting to analyze whether those interests could be protected under the current international patent system. A starting point is the Canada-EU case, Doc. WT/DS224/R WTO Dispute Settlement Panel, March 17, 2000, where it was stated that legitimate interests (“must be defined in the way that it is often used in legal discourse-as a normative claim calling for protection of interest that are “justifiable” in the sense that they are supported by the relevant public policies or other social norms”).

#### **4.1) The 1999 Preliminary Draft from the Hague Conference and its allocation of jurisdiction.**<sup>113</sup>

As a result of U.S. concerns,<sup>114</sup> The Hague Conference on Private International Law<sup>115</sup> started working towards an agreement to enforce foreign judgments in civil and commercial matters in the early 1990s.<sup>116</sup>

In October 1999 the Special Commission adopted a Preliminary Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters, which since then has been pending (of doubtful) approval.

This legal piece covered most of the civil and commercial fields to be litigated by private parties, including IPR. Its wide scope and the inclusion of such a debated issue as IPR has been an important reason for its delay.<sup>117</sup>

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<sup>113</sup> *Preliminary Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters*, adopted by the Special Commission on 30 October 1999, available at <http://www.hcch.net/e/conventions/draft36e.html>, (hereinafter 1999 Draft)

<sup>114</sup> Masato Dogauchi, *Jurisdiction over Foreign Patent Infringement under the Hague Draft Convention as of June 2001*, *WIPO Doc.*, WIPO/PIL/01/8, ("The concerns of the U.S. were, in addition to securing having their judgments smoothly recognized and enforced in foreign countries, to limit the application of exorbitant rules on jurisdiction of other countries. Especially, it was of great interest for the U.S. to protect American parties from enforcement of judgments, which was based on such exorbitant bases of jurisdiction as the location of the defendant's asset found in German law or the nationality of the plaintiffs in French law") [http://www.softic.or.jp/symposium/open\\_materials/10th/en/dogauchi1-en.pdf](http://www.softic.or.jp/symposium/open_materials/10th/en/dogauchi1-en.pdf) (last visited April 2004). Others, such as Von Mehren, *Recognition and Enforcement of Foreign Judgments: A new approach for the Hague Conference?*, 57 *LAW & CONTEMPORARY PROBS* (1994), said that ("The Hague Conference was chosen by the US... because the US did not want to face the group of contracting states to the European Conventions alone"), at 271-273.

<sup>115</sup> Members of the Hague Conference include all EU countries as well as *Argentina*, Australia, *Brazil*, Bulgaria, *Canada*, *Chile*, China, Croatia, Cyprus, Czech Republic, Egypt, Estonia, Former Yugoslav Republic of Macedonia, Georgia, Hungary, Israel, Japan, Republic of Korea, Latvia, Malta, *Mexico*, Monaco, Morocco, *Peru*, Poland, Romania, Slovakia, Slovenia, Suriname, Switzerland, Turkey, *the United States of America*, *Uruguay* and *Venezuela*. It should be noted the most important economies of America are participating in the Convention.

<sup>116</sup> Regarding the project on recognition and enforcement of foreign judgments the list of countries involved in the lawmaking process is even greater, see <http://www.hcch.net/e/members/members.html>.

It was based on the European model composed by the Brussels and Lugano Convention as well as on the U.S. jurisdictional model. Its most important function was to achieve consolidation of disputes through an array of instruments shaping the allocation of jurisdiction among different domestic courts such as the inclusion of a multiple defendant provision and *litis pendens* regulation with a black, white and gray list of jurisdictions.

As a preliminary issue, any legal instrument like this can face the allocation of jurisdiction for international litigation of patent rights in three ways: First, leave it without the content of the agreement,<sup>118</sup> second, posit the exclusive jurisdiction on the granting state,<sup>119</sup> or third, allocate it between the granting state and other states in a manner stated in an international agreement. As the first and second solutions would not add anything new to the current situation I shall concentrate on the third. Before that, it is noteworthy to refer to the mixed feature of the Convention, which had three sources for allocating jurisdiction:

- a) **“White List”** of connecting factors empowering jurisdiction over a signatory country of origin, which “shall” be recognized or enforced, by a receiving signatory country.
  
- b) **“Gray List”, the key element of a mixed convention**, allowing a signatory country of origin to decide, according to its domestic law, whether or not to apply the international rules of jurisdiction. Therefore, the receiving country also had the discretionary basis to decide whether or not to recognize/enforce a foreign judgment. This latter list was a victory for common law judicial systems, relying mostly on broad discretion for judicial authority to decide whether to hear or not a case as well as how to solve new matters.<sup>120</sup>

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<sup>117</sup> The need to include more provisions covering new issues prompted by Internet was also a reason to delay the 1999 Draft, see <http://www.uspto.gov/web/offices/com/sol/notices/ab25.html> (last visited April 2004)

<sup>118</sup> That was the proposed solution Rochelle C. Dreyfuss and Jane C. Ginsburg, *supra*, note 28.

<sup>119</sup> This seems to be the position of the United Kingdom, Germany, France, Australia and Japan, see Masato Dogauchi, *supra*, note 114.

<sup>120</sup> Arthur T. Von Mehren, *supra*, note 106, at 4, stating the advantages of a mixed convention. This is a hallmark issue for the whole Proposed Draft as it distinguishes the different tradition to allocate jurisdiction between common and civil law countries. The common law tradition establishes a set of flexible rules allowing judges to decide whether they should exercise it or not, as *forum non conveniens* doctrine, while the second is designed to be mandatorily followed by judges to exercise jurisdiction.

c) “**Black List**” prohibiting both the country of origin and receipt to apply them.

Article 12 of the 1999 Draft allocated jurisdiction through this mixed system as follows:

*“Article 12. Exclusive jurisdiction: (The white list grounds)*

4. In proceedings which have as their object the registration, validity, [or] nullity[, or revocation or infringement,] of patents, trade marks, designs or other similar rights required to be deposited or registered, the courts of the Contracting State in which the deposit or registration has been applied for, has taken place or, under the terms of an international convention, is deemed to have taken place, have exclusive jurisdiction. This shall not apply to copyright or any neighboring rights, even though registration or deposit of such rights is possible.

(The gray area):

[5. In relation to proceedings that have as their object the infringement of patents, the preceding paragraph does not exclude the jurisdiction of any other court under the Convention or under the national law of a Contracting State.]

[6. The previous paragraphs shall not apply when the matters referred to therein arise as incidental questions.]

Behind this drafted article there is more to be seen. During June 1999, the US delegation sustained that exclusive jurisdiction over validity of IPR should not impede “jurisdiction if validity is and incidental question in litigation”.<sup>121</sup> The proposal was rejected by a narrow vote due to the difficulties in applying foreign IPR law and the apprehension about US courts interfering with the sovereignty of other courts in registration issues, but it was finally drafted as paragraph 5 in the 1999 Draft.

After it was launched, further debates and discussion among delegations regarding the allocation of jurisdiction for patent infringements arose in the Conference meetings. Hence, an alternative number of proposals were made involving different approaches to allocate exclusive jurisdiction in patent matters.

#### **4.2) 2001 Proposal to allocate jurisdiction.**<sup>122</sup>

The Diplomatic Conference in June 2001 concluded with three different proposals for Article 12.<sup>123</sup>

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<sup>121</sup> Cited in Blumer, *Transatlantic Patent Litigation*, at \*392.

<sup>122</sup> *Summary of the Outcome of the Discussion in Commission II of the First Part of the Diplomatic Conference 6 – 20 June 2001*, available at [http://www.hcch.net/doc/jdgm2001draft\\_e.doc](http://www.hcch.net/doc/jdgm2001draft_e.doc) (hereinafter 2001 Proposal).



OPTION A) According to paragraph 4, the court of the state where the patent was granted had exclusive jurisdiction on the issues of validity, invalidity and infringement of that patent. Paragraph 6 states “Paragraphs 4.... shall not apply where one of the above matters arises as an incidental question in proceedings before a court not having exclusive jurisdiction under those paragraphs. However, the ruling in that matter shall have not binding effect in subsequent proceedings, even if they are between the same parties. A matter arises as an incidental question if the court is not requested to give a judgment on that matter, even if ruling on it is necessary in arriving at a decision”.

OPTION B) Paragraph 4 set forth that the court of the state where the patent was granted had exclusive jurisdiction on issues regarding validity but not on infringement of the patents. Paragraph 5 allocated jurisdiction for infringement of patents to those courts referred in paragraph 4 or according to the provisions of Articles 3 to 16 i.e. general rules of jurisdiction such as defendant forum habitual residence (ART 3), consent on jurisdiction between the parties (Art 4), when defendant did not contest the jurisdiction (Art 5).

OPTION C) Under this proposal either i) all intellectual property matters were to be excluded from the scope of the Convention, ii) only copyright matters were to be included, or iii) only matters related to Internet were to be excluded.

#### **4.3) Analyzing the proposed bases for jurisdiction.**

The rationale behind article 12 of the 1999 and option B in the 2001 Proposal were similar to the Brussels regulation separating actions about infringement of patents from those about validity. As cited above, this is no a minor legal issue and it is still pending in the European Court of Justice, which decision may make the distinction between actions for infringement and validity of patents within the European Community more or less significant for the debate within the Hague Conference. If it decides the issue reinforcing the exclusive jurisdiction of the registered state regarding validity of patents it will be a signal against the forces leading towards a multinational system to litigate patent rights.

A more acute problem in the 1999 Draft was that paragraph 5 of article 12 granted jurisdiction to almost “any” court other than one of the registering state rising the number of choices for patent owners to file an infringement action increasing the expected return of forum shopping. This was so because the provisions allowing a court to exercise jurisdiction were based on multiple legal standards such as: the place where a defendant resides (article 3 and article 9 extending jurisdiction to the operative place of a branch); and the place of injury (art. 10).

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<sup>123</sup> This summary is based on Yoshio Kamadura, *International Patent Litigation and Jurisdiction, Study of Hypothetical Question 1 Under the Hague Draft Convention and Japanese Laws*, available at [http://www.softic.or.jp/symposium/open\\_materials/10th/en/kumakura-en.pdf](http://www.softic.or.jp/symposium/open_materials/10th/en/kumakura-en.pdf), last visited March 2004.

It is also important to take into account that this Draft contained provisions allowing courts from states other than the registering state to order provisional or protective measures (art 13), which would increase private benefits for patent owners stopping the entrance of potential competitors in almost any market. It seems obvious that courts of LDCs would then have incentives to revise the validity of those patents when required to enforce foreign provisional judgments, which in turn would potentially affect patent holders if the title (that might sustain the validity of an entire portfolio) were to be declared invalid.

Having the possibility of revising article 12 under the European experience referred above, it is safe to conclude that the amount of global litigation over how to deal with validity and infringement in different courts would be troublesome. The same would happen over what is an incidental question in option A of the 2001 Proposal, paragraph 6.

Option B in the 2001 Proposal seems to be the one preferred by US officials, although it faces the challenges of other countries adhering to the “act of the state doctrine” as well as the patent bars of developed countries.

There is also the option of giving only “inter partes” effect to decision ruling the invalidity of foreign patents, as set forth in option A of the 2001 Proposal regarding incidental questions. This is an interesting shortcut to deal with the problem of allocating jurisdiction, although it is not a definitive solution, as there are other issues challenging the 1999 Draft and 2001 Proposal.

#### **4.4) Public international law analysis: why patents are so problematic as to be included in an agreement such as the 1999 Draft and 2001 Proposal.**<sup>124</sup>

##### **A) International lawmaking costs:**

Let us recall that there are many LDCs among the countries participating in designing a convention. Current disputes regarding the regulation and implementation of minimum standards of patents according to TRIPS<sup>125</sup> involving those countries are well known. Moreover, there are many signals that the extent of substantive harmonization may be conducted through bilateral and regional agreements rather than multilateral treaties, which may raise more complexities for the international patent system.<sup>126</sup>

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<sup>124</sup> The reasons for the delay to adopt the proposals go beyond patent issues. However, I would rather concentrate on the problematic issues arisen by factors connected with patent rights.

<sup>125</sup> Let us recall that most of the LDCs are still not required to fully implement the international obligations assumed under the TRIPs, due to the grace period given to those countries.

<sup>126</sup> The use of bilateral treaties to regulate intellectual property rights is likely to speed up in the short term. For instance most of the treaties cited *supra*, note 16, were signed during the last 2 years.

Because patent regulation is so unstable given its relation to international trade and also has considerable implications for domestic policies of LDCs such as public health and economic development,<sup>127</sup> until most of these issues are clarified, in my opinion the current stage of international harmonization of substantive patent law will not allow us to set forth a solid base for developing a general model establishing international patent litigation such as the 1999 Draft or the 2001 Proposal.

Otherwise the overlapping process of substantive international harmonization and the extension of international enforcement of patents may generate further clashes among countries with opposite interest for dealing with regulation of innovative activity<sup>128</sup>.

Thus, even if a private international law convention were to be launched today, the growing process of multilateral and regional integration may impose the challenge of how to coordinate supranational (TRIPs) and regional or bilateral agreements at a stage where neither one is already consolidated. This is not only

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<sup>127</sup> There is a wide range of interests that LDCs may try to add to future issues into the process of substantive patent harmonization, including the aim of having MNEs internalized the use of those resources abundantly found in LDCs . For example, ("several proposals have been made, particularly by IPRs-concerned NGOs, for the revision of article 27.3.b, for instance, in order to ensure that naturally occurring materials are not patentable, and to recognize some form of protection for the "traditional knowledge" of local and indigenous communities") Carlos Correa, *supra*, note 21. Moreover, there are some overlapping competences of multilateral agencies working on areas that may affect any outcome of that broad process of harmonization. Regarding the Convention on Biodiversity (CBD), ("the African Group has indicated, in particular, that art. 27.3.b of TRIPs should be harmonized with the CBD, the objective of which is to protect the rights of indigenous people and local farming communities and to protect and promote biological diversity"), *id.* For instance, ("India has noted that while the TRIPS Agreement obliges Members to provide product patents for microorganisms and for non-biological and microbiological processes, and to provide for the protection of plant varieties, the CBD "categorically reaffirms that nation states have sovereign rights over their own biological resources, recognizes the desirability of sharing equitably the benefits arising from the use of these resources as well as traditional knowledge, innovations and practices relevant to the conservation of biological diversity and its sustainable use, and acknowledges that special provisions are required to meet the needs of developing countries"), *ib.*

<sup>128</sup> Future industrial developments such as Nanotechnology may increase the importance of innovative activity as a geopolitical key for its potential commercial and social value not only for DCs but also for LDCs.

true for the EU systems based on the Lugano – Brussels Convention<sup>129</sup> but also for the coming FTAA including NAFTA, MERCOSUR, CARICOM (Caribbean Community), ANDEAN COMMUNITY, that is, for the whole of America.

Besides these political concerns affecting the lawmaking process of international law there is the majority rule governing the potential outcomes from the Hague Conference. As long as each country has a single vote and a majority is required to agree on a draft to become an official proposal there may be imbalances during the negotiations. Likewise the lawmaking process is also distorted within the Hague Conference for all proposals made by any country have to be accepted and discussed by the rest of the members, so that the longer it takes to study such a complex issue as international patent litigation, the less clear the test.<sup>130</sup> According to U.S. officials “the project as currently embodied in the October 1999 preliminary draft conventions stands no chance of being accepted in the United States”.<sup>131</sup>

Overall, the main issue for the Hague Conference to solve is how to overcome the existence of the asymmetric views and interest regarding substantive regulation of patents rights among its member countries.

b) **Increasing forum shopping reinforces asymmetric interests on regulating patent rights.**

Given the lawmaking costs to launch a tight agreement setting stable bases for jurisdiction a logical consequence would be a lack of uniformity and certainty in the cross border enforcement of patents. Indeed this would lead to grant potential plaintiffs, through the extension of available potential jurisdictions, and defendants, through the potential use of declaratory judgments, with a broader set of choices increasing forum shopping, which results in the harmful practices that were already described above.

Because of all these factors, it is reasonable to believe that the ongoing and predicted tensions on the implementation of international agreements by LDCs such as the TRIPs, but particularly with the called TRIPs-Plus, may also prevent a successful development of the “third stage” of the “international patent system” in connection to those countries.<sup>132</sup>

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<sup>129</sup> Arthur T. Von Mehren, *supra*, note 106, at 6.

<sup>130</sup> It has been noted that “in comparison with the 1999 draft articles which consisted of 12,000 words, the 2001 draft articles consists of 24,000 words”, Masato Dogauchi, *supra*, note 114.

<sup>131</sup> *Letter of February 22, 2000, Jeffrey Kovar, Assistant Legal Adviser and Head of U.S. Delegation, to J.H.A. von Loon, Secretary General of the Conference.*

<sup>132</sup> However, the existence of overlapping multiple factors motivating developing countries to update and increase the level of substantive and effective patent protection, for example regarding traditional knowledge in the Andean Community, makes difficult any final prediction. Current negotiations over agricultural subsidies may also have a great impact on the willingness

To conclude, I think that neither the 1999 Draft nor the 2001 Proposal had the required solid basis for most member countries to agree on the design of an optimal system regulating the allocation of jurisdiction capable of prevailing in the medium term.<sup>133</sup>

#### **4.5. The 2003 Proposal**<sup>134</sup>

The ongoing work under the Hague Conference over transnational patent litigation is focusing on the enforcement of exclusive choice of court clauses included in contracts between commercial parties, or business-to-business transactions.<sup>135</sup> As I will address in more detail in the next section, I think this is the best available strategy to establish an optimal system to enforce domestic patent rights across borders. However, the current draft agreement does not expressly include infringement nor validity of patents,<sup>136</sup> although it might do so if it arises as an incidental question,<sup>137</sup> which is better than nothing but inadequate given the current stage of the international patent system and the potential benefits to be gained therefrom.

Thus the current proposal seems to absolutely reject the previous work made under the 1999 Draft and the 2001 Proposal, and only a cloak of international ongoing negotiations over intellectual property in general may explain the reason to doubt the inclusion of infringement and reject validity of patents therein. Even if the issue of determining the validity of a patent in a court other than from the registered state is problematic, there may be higher social benefits than costs for both private entities doing business and other interested actors if B2B transactions involving patent rights are to be included therein.

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of LDCs to adopt higher standards of IPR protection, as they will access to new markets for their products in DCs.

<sup>133</sup> Although it is an analysis beyond the scope of this paper, it may be beneficial here to apply the new developments in the theory of international law, such as the dynamic theory of international law worked out by Brett Frischmann, *supra*, note 34, and other scholars.

<sup>134</sup> See *Draft on exclusive choice of court agreements of April 2004, working paper no. 110 E*, at [http://www.hcch.net/doc/jdgm\\_wd110\\_e.pdf](http://www.hcch.net/doc/jdgm_wd110_e.pdf). This and prior similar documents such as the *Preliminary Draft Convention on Exclusive Choice of Court Agreements, Draft Report*, drawn up by Masato Dogauchi and Trevor C. Hartley (hereinafter "Dogauchi Report"), together will be called the 2003 Proposal.

<sup>135</sup> Hereinafter B2B, the proposal is not to include consumer contracts.

<sup>136</sup> See article 2.2 (k) and the comments in Dogauchi Report, section 29, at 11.

<sup>137</sup> See article 2.3 and Dogauchi Report, *supra*, note 136.

Notwithstanding the foregoing, it is very likely that patent disputes are not going to be included at all.<sup>138</sup>

In the next Section I shall offer a normative rationale to justify the inclusion of international patent litigation within the 2003 Proposal.

### **SECTION 5): A POTENTIAL RATIONALE TO ALLOCATE JURISDICTION OVER INTERNATIONAL PATENT CASES**

As I have pointed out throughout this paper, the major discussion regarding international patent litigation has been whether or not to extend jurisdiction over patent validity to courts of countries other than that of the registering state. This is the argument that arises most of the time as a defense against infringement actions where such defense is allowed.<sup>139</sup> Likewise, most of the apprehension with the 1999 Draft and 2001 Proposal is derived from the uncertainty and complexity that such a provision would mean for current global innovative activity.<sup>140</sup> Without dismissing the difficulties that such issues are to impose in a future model, I think that there are some shortcuts to deal with most of those concerns.

My starting point is to recognize that there are social advantages from having different (higher-low) patent protection and/or from applying international standards of patent protection according to their domestic interpretation when the subject is not constrained by prior binding decisions and declarations of international agencies such as WTO and WIPO managing international patent treaties and shaping new ones. I also recognize that such a soft principle of territoriality also has disadvantages for private parties wishing to enter into transactions for they bear the uncertainty regarding the extension of their rights and obligations when operating across borders. However, I think that it is still possible to reach a better relative solution allowing private parties to set forth their business objectives with some more legal certainty. That is why I will

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<sup>138</sup> This proves the importance of ongoing claims in favor of keeping the act of state doctrine which was analyzed above, see Dogauchi Report at 11. Professor Dinwoodie believes that the exclusion of patent right matters is to be the final result of the current discussion within the Hague Conference.

<sup>139</sup> Not all domestic patent systems provide this solution, see Special Committee Q 153, *supra* note 5, where it is set forth that some countries allow a defendant to raise the defense of invalidity of the patent while others require filing a different action before the Patent Office or a Court.

<sup>140</sup> See AIPPI International Report of Special Committee Q175, "On The Envisaged Hague Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters", available at <http://www.hcch.net/e/workprog/jdgm.html>, citing the different options regarding the allocation of exclusive jurisdiction on the registering state, among its member countries, which is included in article 12 (4) 1999 Draft.

dedicate this Section to show that the 2003 Proposal and the ongoing developments of international arbitration start to indicate that a major difference may have to be drawn between cases involving related and unrelated parties from countries with symmetric or asymmetric incentives in order to allow a court from a state other than the registering state to decide over validity of foreign patents. These distinctions are based on two assumptions to make the international patent system more efficient.

#### ASSUMPTION ONE.

The first assumption is that private market actors are more interested in reaching successful transactions, which serves the socially desirable goal of promoting international commerce of innovative activities, rather than in merely entering in litigation for private benefits, which is socially desirable as a second best choice to solve disputes arising from the said commerce. Hence, the choice of whether to litigate or not is (optimally) a consequence of the capability to foresee disagreements between the parties. Therefore the first stage of any international agreement regulating cross border patent litigation should be directed towards creating a mechanism for solving disputes among related parties who are going to litigate as a second best choice as long as they would have preferred to achieve an agreement but transaction costs or unforeseeable events prevented them from doing so. In short, an international patent system should promote private parties to negotiate efficiently among them.<sup>141</sup>

Despite these considerations the initial models of treaties were centered on developing a consolidation system without further reference to whether the connection between the parties on litigation should be taken into account. The rationale for such a distinction is that in order to extend the allocation of jurisdiction over infringement and/or validity of patents to countries other than the registering state, current uncertainties and dynamics of the international patent system should be taken into account. As stated above, the process of international harmonization has not meant the abolishment of concurrent domestic patent laws setting high protection in net IP exporters countries and low protection in net importers. Even if the patent system of net importer countries fully implement the international minimum standards of TRIPs or future higher levels of protection, still there will be space for their courts or legislatures to apply and/or enact protectionist measures without discriminating among national and foreigners thus not violating the national treatment principle. Due to these

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<sup>141</sup> Of course there may be limits for that freedom to negotiate founded on the “public interest” of member countries. For example: regulation of transfer of technology for national security purposes, antitrust or anticompetitive law to avoid such harmful practices, allocation of jurisdiction to tax international transactions of intangible assets in order to combat tax avoidance by transfer pricing methods. Likewise it should be carefully noted that certain IP regulations have been left up to each country such as exhaustion of patent rights (article 6 of TRIPs) and antitrust regulation of IP.

characteristics of the international patent system, models such as the 1999 Draft or the 2001 Proposal would increase the costs of private parties looking to enter a business transaction for the uncertainty about how those rights are to be enforced in the future, which ultimately rebounds in the prices, amount or quality of the inventions used by producers and enjoyed by consumers.

Thus, a central term to analyze is “related parties”, meaning sufficient connecting factors between the parties of a dispute as a first step to justify a potential jurisdiction, and only then between each party and the potential jurisdictions.

“Related parties” could mean parties of a contract regarding the sale, transfer, licensing, distribution or franchising of assets protected by patents; a previous litigation on the same subject matter by the same parties in forums having similar standards of patent protection as well as the existence of an agreement regulating choice of forum or mandatory arbitration, if not others.<sup>142</sup> Limiting it up to the existence of a B2B exclusive choice on court agreement may be a good start in order to begin the path of cooperation among governments that may influence the reshaping of a more efficient and fairer international patent system.

Focusing first on the existence of said contracts also has the benefit that it may spur the transfer of already existing technology to countries that not only have low standards of patent protection but also lack the required funds and/or expertise to properly enforce already existing patent rights. After all, such a treaty will give governments of LDCs the chance to follow a self-interested strategy and join it hoping this would have at least a signaling effect attracting innovative activities, which is a matter of domestic policy competence. If that instrument is launched and works as desired, it will signal the advantages for other countries to do so, improving the efficiency of the current international patent system.<sup>143</sup>

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<sup>142</sup> I doubt that the European standard (spiders and webs) applied in *Expandable Grafts P’Ship v. Boston Scientific*, *supra*, note 39, could be properly included herein, for the basic rationale on that case was article 6 (1) of Brussels Convention, which has the goal of avoid irreconcilable judgments within the EU. However, in dicta it was made the exception where there are several companies belonging to one same group, which can be work out to suit in the said “relatedness rationale”.

<sup>143</sup> In order for LDCs to raise their level of development, it has been recognized that they will need to have access to technology that either makes the production of existing products cheaper, or results in new products awarding a comparative advantage to compete in the global market place. That can be done essentially in two ways, through their own efforts on R&D or through the transfer of technology that has already been produced in other, generally developed, countries. Given the financial constraints that most LDCs face regarding the first approach, I think is useful to concentrate on exploring alternatives that may facilitate the second strategy, which would also save global scarce resources for avoiding duplicative costs of R&D.



## ASSUMPTION TWO.

The second assumption to prefer the 2003 rather than the 1999 Draft or the 2001 Proposal is derived from a rationalization of patent infringement as torts.<sup>144</sup> Once again the economic analysis of the law provides us with helpful insights about this legal institution.<sup>145</sup> Under said approach, the aim of patent infringement is to deter potential infringers from affecting the legitimate rights of the patent owner,<sup>146</sup> if and only if the latter complies with the legal requirements of patentability including disclosing the required information during the prosecution of a patent application and monitoring its rights once granted. Once litigation has begun the goal to achieve is enforcing the right to exclude awarded through the patent title while at the same time taking into account “the interest of third parties”.<sup>147</sup> This rationale may allow domestic courts to work out and to implement the international principles of article 7 of TRIPs, which have been applied, for example, in the Canada-EU case.<sup>148</sup> Taken as a tort, the ultimate

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<sup>144</sup> Janice M. Mueller, *supra*, note 10 (“Patent litigation is a tort, for which the patent owner may sue an accused infringer in a civil action”), at 307 also citing *Carbice Corp v. American Patents Dev. Corp*, 283 US27, 32 (1931) (“Infringement...whether direct or contributory, is essentially a tort, and implies invasion of some right of the patentee”). This seems to be the right rationale if we take into account those international agreements stating primarily compensatory but not punitive damages.

<sup>145</sup> For a general analysis of this topic, see Tomas Ulen, *supra*, note 8

<sup>146</sup> The WTO Dispute Settlement Panel in the Canada-UE, *supra*, note 112, held that (“The exclusive rights conferred by a patent were normally exploited by “working” the patent for commercial gain. Typically, this would involve the patentee engaging in any combination of the following activities: using the patent to manufacture and sell the product as a monopolist, licensing the right to use the invention to others in return for the payment of royalty or other compensation; and selling a part or the whole of its property right in the invention and its patent”).

<sup>147</sup> Defined as (“all those who, not having a property interest in the patent, had an interest in the availability, consumption, cost or production or regulated products that were subject to the protection of a patent. Thus “third parties” included society at large, individual and institutional consumers of such regulated products and would-be competitors producers of those products”), Canada case, *id.*

<sup>148</sup> (“The TRIPs Agreement as a whole was framed so as to achieve a balance between competing interests, and to ensure that the assertion of patent rights did not prevent the realization of other important societal objectives”), Canada case, *id.*

function<sup>149</sup> of a patent legal system is to impose optimal costs on potential infringers to deter them from doing so while at the same time allowing them to engage in the optimal amount of inventing-around-activities, which brings the optimal level of innovation to the market.<sup>150</sup> The particular dilemma of patent infringement under a tort rationale is that while a legal system must confer protection to patent owners, on the other hand a society should avoid the restriction to legitimate uses of valuable innovation which in turn depends on cumulative exploration and use of prior knowledge i.e. “designing around a patent”.<sup>151</sup> This problem is particularly acute for those LDCs with an economic and social infrastructure to enter and efficiently compete in the global market such as India, China, Brazil and Argentina.

However, the proper balance between the social benefits and costs of this universal patent dilemma is not evenly achieved in those different sorts of countries. LDCs face challenges such as lack of qualitative information i.e. optimal control over the disclosure of the required information such as the best mode to work a particular patent, because the production of innovative products is mainly carried out in DCs. Moreover, most of them neither have the required

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<sup>149</sup> There are other rationalizations to describe, justify or guide a patent system. For example: patents as a system to reward scarce activities (incentive to invent); to encourage those having private information to disclose it to the public (incentive to disclose); and to coordinate the commercialization of the output of R&D activity (incentive to innovate), there are also newer theories such as those pointing out the relevance of patent to diminish transaction cost, see Paul J. Held, *A Transaction cost theory of Patent Law*, available at <http://www.law.tulane.edu/WIPIP/papers/transcosttheory.pdf>. This last theory is very helpful for my analysis; however, I am assuming that patent systems should optimally operate globally under a tort rationale, which finds a legal base on article 7 of TRIPs, and WTO cases, such as *Canada v. EU.*, *supra*, note 112.

<sup>150</sup> There is a tension between the notice function of claims, i.e. protecting actual or potential competitors of the patentee, and a full protection of patent holders rights. See Roger D. Blair, Thomas F. Cotter, *An Economic Analysis of Seller and User Liability in Intellectual Property Law*, 68 U. Cin. L. Rev. 1, \*20 (“an important reason for having liability rules (in addition to preserving the patentee's incentive to invent) is to deter patent infringement from occurring [FN77]. It is socially useful to deter patent infringement because infringement is not socially productive, although it could be privately profitable. Moreover, resources are wasted in protecting against unauthorized use. Finally, if infringement is deterred patentees will, by necessity, receive whatever compensation they are able to negotiate from those who wish to use the patent”).

<sup>151</sup> That is the reason to grant patent rights, “patent of addition”, for improvements over prior inventions.

resources to gather and process the adequate (in terms of quality and quantity) information during a prosecution of a patent application nor during an infringement trial to finally reach an appropriate cost-benefit analysis.<sup>152</sup>

Hence, departing from those assumptions I will focus on the more practical issues of how by modifying the current international patent system the situation of both private parties wishing to enter an international transaction and judicial bodies wishing to reduce their dockets and expenditures, can be improved.

Let us assume that most domestic patent systems are based on primarily private means<sup>153</sup> to enforce patents rights where the ultimate goal is to induce potential infringers to negotiate a license rather than to infringe the patent rights if, and only if, the patentee has complied with all the standards of patentability. Under an optimal global enforcement system, if the “use” of a patented invention under payment of a fee makes the potential infringer better off, he or she will prefer to negotiate a license rather than to infringe the patent. In this ideal world private parties are in charge of gathering and processing information to make that decision. If it is more likely that a patent is to be declared invalid rather than valid, a risk-neutral competitor will prefer to copy around said patent. Hence, it may be expected that an optimal amount of inventions will be used in a given importing foreign market as long as those risk-neutral potential infringers prefer to negotiate the importation of the subject matter rather than copy around, which is a risk activity if foreign patentees can sue them abroad. **Currently, there are problems for private parties operating in LDCs due to they do no have access to the optimal amount and quality of information so that their assessment regarding the probabilities of being infringing a patent is**

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<sup>152</sup> For a brief explanation of the problems that LDCs, particularly Latin American countries, face on this matter see Ignacio De Leon, *The enforcement of competition policies on intellectual property and its implications on economic development: The Latin American experience*, American Bar Association Section of Antitrust Law and Canadian Bar Association Competition Law Section, International Antitrust Conference, Vancouver, May 31 June 1, 2001, available at SSRN website. This debate, however, is not isolated to LDCs. For an example about the US regarding biotechnology see Rochelle Cooper Dreyfuss, *Varying the course in patenting genetic material: A counter proposal to Richard Epstein's Steady Course*, Perspectives on Properties of the Human Genome Project, ( F. Scott Kieff, ed., 2003).

<sup>153</sup> The imposition of costs to have a potential infringer internalized their potential free riding can be achieved by “primarily private means” or by “a mix of public and private actions”. The former is found in countries such as the US where the patent title confers to his owner a substantive-strong and tightly-enforced right to sue others. The latter may be found in countries such as Mexico where the infringement action, even if started by private notice, is lead by a public agency, I.M.P.I in this particular case.

**distorted because of the dissimilar application of standards of patent protection by most of their courts.**

Consolidating disputes among related parties in the forum of a net exporter country that applies the law of a net importer country regarding the validity or/and the infringement of a patent granted by the latter may assure the private party located in the former an unbiased and technically proper issue decision, which may surpass the poor protection afforded in the importing country where the same rights may be rejected therein or, at least, limited to some extent. This last practices are currently likely to escape from existing international obligations such as national treatment. The fact that the decision may be unbiased, or at least less biased than if it continue always to be dictated by a court of the importing country, may be a win-win situation if some sort of revision by the enforcing country is also to be necessary. This need of cooperation between the seized and the addressed court may counter unilateral-self-interested measures damaging private parties from any of those countries, at least if one analyzes the potential outcomes in the medium or long term. Furthermore, courts dictating biased decision may lose prestige so that the same or other parties of future transaction could anticipate the consequences of selecting those “biased” forums, a measurable risk capable of being borne for a price in a contract. Finally, the scope of protection should be based on the substantive law of the registering state, including the amount of remedies afforded in the net importer country. Assuring this is to be the function of such a “filter” as the cap on damage awards stated above.

Another advantage of such a system is that the resources wasted by patent owners for controlling and monitoring the activities of potential infringers in other countries may be used in more social beneficial activities or, if it accounts as a cost of the business transaction, may be deducted thus decreasing the cost of licensing inventions to net importer countries.<sup>154</sup> Taking into account these potential benefits, a major function of any international private law system for enforcing patent rights worldwide should be to reduce current costs derived from the existence of asymmetric incentives in order to allow private parties to

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<sup>154</sup> (“The very sharing of intellectual property rights across borders raises a risk that proprietary control of the technology may be lost or, at a minimum, that a competitor will be created. For those reasons, international licensing agreements are complex legal documents that need to be carefully negotiated and drafted. Absent licensed transfers, piracy of intellectual proprietary is increasingly commonplace. Indeed, in some developing countries such theft has risen to the height of development strategy”), Ralph H. Folsom and others, *supra*, note 11, at 730.

negotiate first and to litigate if there is not another choice, later.<sup>155</sup> Moreover, allowing the parties to set forth the desired forum, which does not determine the substantive law, may narrow ex-ante the potential overlapping jurisdictions thus reducing the harmful effects of forum shopping.

Hence, an optimal first stage of such a system containing members with asymmetric incentives to regulate and enforce patent rights should not primarily focus on allocating jurisdiction for suing an unrelated party such as an unnoticed competitor who may be infringing a patent owned by a foreign entity having multiple foreign patent counterparts as proposed in the 1999 Draft system. Focusing on the negative effects for innovative activity in the net importer country, we should consider that a potential free rider may not have handy information to know whether the invention disclosed in his or her country is already patented in some other more pro-patentee country whose jurisdiction could be used by a potential plaintiff to sue under a general system such as the 1999 Draft. In the case of unrelated parties from net importer countries and net exporter countries, it seems to be clearly problematic to allow any of their courts to adjudicate a dispute over the infringement and validity of foreign patents. The main issues are not only the general “costs” that were pointed out above but also the uncertainties that would be brought if what a potential infringer can do were to be decided by a court of a net exporter country with incentives to find an extended liability of the would-be infringer as well as few reasons to declare the invalidity of the patents. The same would happen if the entire portfolio of patents owned by a foreign entity were decided by the court of a net importer country, which at the very least would have incentives to negatively assert the infringement of a domestic patent, if not to declare the invalidity of the entire portfolio putting the invention within the public domain in multiple jurisdictions.

Such general system could be optimally implemented to regulate private transactions among unrelated parties from net exporter countries for the undesirable effects of forum shopping are less important. For example, a dispute involving unrelated national entities of U.S. and Europe could avoid the problem of existing asymmetric incentives due to the lack of potential transfer of national wealth between those countries. This is based on the probability that the amount of imported and exported patentable goods and intangible assets in each of

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<sup>155</sup> Which was called “contractualization of torts” by Jonathan A. Franklin and Roberta J. Morris, *International Jurisdiction and Enforcement of Judgments in the era of global networks: irrelevance or, goals for, and comments on the current proposals*, 77 CHIC.-KENT L. REV. 1213. Private negotiation is also a desirable goal for any patent system in order to create and sustain efficient market prices regarding the creation and use of intangible assets. Stating the difficulties for private parties to find the fair market value in licensing agreements see Gavin Clarkson, *Avoiding Suboptimal Behavior in Intellectual Asset Transactions: Economic and Organizational Perspectives on the sale of knowledge*, 14 HARV. J. L. & TECH 711, (2001).

these countries would be offset giving as a result a near-zero sum of net wealth transferred for the whole transactions occurring between parties from those countries. Moreover, harmful efficiency effects of forum shopping might also rebound to a lesser extent on those countries, as their patent systems are both based on “high standards” of patent protection. Were such a system to be in the benefit of those countries, it could be implemented through bilateral treaties without the law-making problems that have delayed adoption of the 1999 Draft. However, due to other important legal differences between their systems, such a system should be studied further.<sup>156</sup>

Summing up, due to the current asymmetric<sup>157</sup> incentives to regulate domestic patent system in a large number of countries, an optimal first stage of a more global patent system should not focus on allocating jurisdiction for suing an unrelated party such as an unnoticed competitor who may be infringing a foreign patent for that might increase the costs of those activities, making all the parties worse off. Thus, allocating jurisdiction to a country other than the registering country over disputes among unrelated parties would impose potential costs on the innovative players for their apprehension to be sued by a foreign plaintiff as long as the latter is given more flexible choices for jurisdiction increasing his or her expected litigation rate of return. These are all well founded concerns described as harmful effects of forum shopping in international patent cases. Finally, the following should be inferred in cases where litigation involves related parties: potential private and public costs damaging the transfer and global production of innovative activity are not overwhelmingly present, as the parties are to be able to evaluate most of these problems before entering the transaction in their benefit.

Some hypothetical examples using more concrete players may provide us with better insights:

### **Scenario 1:**

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<sup>156</sup> Among the most important differences in need of being coordinated, it can be found: the coordination of systems based on first to invent and first to file as well as the different criteria i.e. central and peripheral approaches, to interpret claims in infringement actions.

<sup>157</sup> As another example of these asymmetries, the regulation of exceptions of patent infringement shows the relative difference about the social value of competitive innovation between net exporter and importer countries. For example the scope of the fair use doctrine as a valid defense for infringement varies in countries like the U.S. that gives it little scope while others, especially LDCs with higher relative value for competing activity, give that defense broader scope.

USCOM is<sup>158</sup> a U.S. company and it has a patent for product X in the US and Brazil. X has great potential value in both markets. BRACOM is a Brazilian firm that markets a product W which is very similar to X in the sense that it could be found either identical or not quite similar to infringe X with the same probabilities. Furthermore, W has a very similar market value to X and USCOM and BRACOM are competitors in Brazil but have no relation each other.

Under the rationale stated above USCOM should not be able to sue BRACOM in the U.S. alleging that W infringes the patent for X either under U.S. or Brazilian law.

There are plenty of reasons to reach this conclusion in the present practice under the “international patent system”. The first is the lack of personal jurisdiction for U.S. courts to exercise jurisdiction but there are also the “costs” of enforcing patent rights globally such as language barriers, disavowing foreign law as well as bias of national decisions favoring the nationals of the court, to be endured without any clear advantage.

Hence, without the establishment of a system to consolidate overlapping jurisdictions, BRACOM is likely to allege that the Brazilian patent for X is not valid so that the next question is whether a US court should still decide the issue of infringement instead of a Brazilian one. The answer seems to be clearly negative for in the absence of such a treaty a Brazilian court would be tempted to review the merits of the case according to its own domestic law and procedures under the principles of independence of patents and territoriality. Because a Brazilian court would reject the jurisdiction of the US court and dismiss any potential judgment, were a U.S. court to exercise jurisdiction it would not only increase litigation costs but also damage alternative methods towards consolidating patent cases.<sup>159</sup>

Moreover, given the significant differences between US and Brazilian patent law,<sup>160</sup> it is possible that a U.S. decision, proper in terms of technical capacity as

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<sup>158</sup> A US company means that USCOM is a US resident, whatever the definition of such a concept is to be used for purposes of exercising jurisdiction as incorporated company, subsidiary, branch, permanent establishment, etc. The legal standard of residency has been a major connecting factor in order to assume jurisdiction in most legal fields of international transactions. However, under the current stage of globalization it is obvious that such a concept should be worked out to cover the greater mobility of legal entities around the globe.

<sup>159</sup> For instance the use of alternative ways for U.S. parties to enforce their rights would soar, such as private lobby for the unilateral extraterritorial application of U.S. law, which was stated as one of the costs to avoid a system to consolidate overlapping jurisdictions

<sup>160</sup> Among these differences, there are some specific provisions to take into account. For example article 68 of 1996 Brazilian Industrial Property Law establishes a local working requirement, which caused the US to file a request for a WTO panel (WT/DS199/3, Jan. 9, 2000). The case was

well as its legal adherence to Brazilian law, might be deemed to be the importation of a monopoly into Brazil. This last remark should be particularly taken into account when dealing with asymmetric countries i.e.: a net exporter and a net importer of intangible assets, where the existence of either “judicial mistakes” of inexperienced judges in Brazil as well as nationalistic juries in the U.S., might lead to even more harmful consequences. For instance retaliation measures between countries and further increasing the incentives for particular countries to become information hells or havens.

It could be argued these practices would constitute discrimination among nationals and foreigners, which is banned by the principle of national treatment. However, the efficacy of that norm, in terms of the level of compliance either voluntarily or mandatory through the TRIPs mechanism of enforcement, might not be high enough as to make them unrealistic. Let us recall that the TRIPs imposes rights and obligations on governments and do not confer any right to private parties.<sup>161</sup> Likewise, proving discrimination requires the existence of a “long practice” not merely an individual, even if widely-evident, case of discrimination. Moreover, it is not clear what is the threshold for distinguishing cases where there is discrimination from cases that not. Finally, applying the standard of discrimination to judicial decision (or those administrative decisions with similar legal effects) seems to be more difficult than applying it to legislative acts, i.e. amendments of existing patent laws, or executive decrees and regulations with general effects in patent matters, i.e. a patent office denying the patentability of specific subject-matter beyond the minimum standards of multilateral and bilateral treaties.

A valid shortcut is that a U.S. court waits until the corresponding Brazilian authority decides the issue of whether the Brazilian patent is valid or not. However this potential solution still requires the establishment of a compromise between those countries to regulate such disputes in order to avoid other harmful strategies such as a Brazilian court delaying its decision or issuing a fast and biased decision against patent rights owned by foreigners. If such a compromise can be reached I do not see any reason why a model such as the 2003 Proposal could not be implemented first.

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settled after Brazil initiated consultations arguing that Chapter 18 of US Patent Law violated the TRIPs.

<sup>161</sup> This is a very important difference with bilateral treaties covering intellectual property rights that directly give private “investors” cause of actions, which may be adjudicated either by domestic courts or other adjudicatory bodies such as arbitral agencies, see those treaties cited *supra*, note 16.



To conclude, a U.S. court should not assume jurisdiction because that may unexpectedly increase the potential liability of BRACOM whose search costs<sup>162</sup> to avoid infringement are to be exponentially expanded from its place of operation if USCOM has multiple patents for a single invention. Moreover, were this sort of action to be promoted unilaterally by US law the costs of monitoring foreign activity for private parties would increase without a certain payoff if most U.S. decisions cannot be enforced abroad.

The result is the same if, besides BRACOM, there were other unrelated potential defendants in many countries, USCOM would have to sue in each country.

### **Scenario 2:**

The same actors but this time BRACOM has a Brazilian patent for W, which makes the case more complicate. Now the issue may be the validity of both Brazilian and US patents for X and W respectively. Were this and the previous issues easily overcome, then it should be determined whether one patent infringes the other one assuming they are both valid. Given the lack of last resort authorities to adjudicate disputes regarding the proper application of validity standards such as lack of novelty, non-obviousness, non-utility, and even lack of working requirements in Brazil, the only possible way to consolidate both actions would be to allocate them in the first seized court, so that a race to a court would arise from which benefits are, at the very least, doubtful.

Who should prevail? Clearly the current stage of the international patent system in its procedural and substantive terms does not give us an answer to that, and this sort of situation is to be endured as accepted costs of the current international patent system.

### **Scenario 3:**

In this hypothetical scenario, USCOM had gotten patents for X in Brazil and the US, then it licensed X to BRACOM and the latter decided not to pay royalties any more after learning how to make X on its own. USCOM sues for breach of the contract, in which it is usually established either that the parties may choose a particular forum to litigate or to submit any potential dispute to an arbitrator. Let us assume the selected exclusive forum is the U.S. and the contract particularly set out that any potential dispute regarding the validity of X both according to US or Brazilian law is treated in U.S. courts.<sup>163</sup> Then USCOM files an action for

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<sup>162</sup> As long as legal standards to determine infringement differ among countries, BRACOM would find it difficult to assess the probabilities of being infringing domestic patent rights if that issue could be decided by any foreign court applying domestic substantive patent law.

<sup>163</sup> Private parties may be able to regulate this issue in the contract taking into account the different scenarios for attacking the validity of a patent: as a defence to infringement or as a counterclaim for revocation. Moreover, a model such as the 2003 Proposal will also help to

breaching the contract before a U.S. court and BRACOM raises the invalidity of Brazilian patent for X as a defense, what might happen then?

A hypothetical decision of the U.S. court regarding the validity of X may lead to hold that the Brazilian patent for X is valid and that it was infringed by BRACOM, which in turn may have to be enforced in Brazil due to, for instance, the lack of assets in the US. Given that Brazil does not have actually any commitment to do so BRACOM may prefer to start the whole process again in Brazil without even taking into account the facts and evidence produced in the U.S. trial. This last solution will increase both judicial and private costs of litigation. The fact that a potential U.S. judgment may not require its enforcement in Brazil, for example because BRACOM has assets to be seized in the US, should not be used to hide the existing tensions to adjudicate disputes involving foreign patents. Otherwise there would be further incentives for courts and countries to use unilateral measures to pursue their own best-strategies, which problems were described above.

Assuming the case is decided according to the 2003 Proposal, the validity of X seems to be an “incidental question” according to the terms of the 2003 Proposal, so it can be addressed by the selected jurisdiction i.e. a U.S. court, and the holding enforced by a Brazilian court or agency. If the U.S. court does exercise jurisdiction over the issue of infringement but does not over the validity of X, BRACOM should initiate a trial in Brazil as soon as possible to try to stop or postpone the case in the U.S. If both parallel trials are to continue there will be more probabilities of ending up with two opposed, and likely irreconcilable, judgments.<sup>164</sup> If the U.S. court does not exercise jurisdiction over the validity nor the infringement of the Brazilian patent but still decides to enforce the contract, there will be unfair and harmful effects for BRACOM, which is likely to be found liable for breaching a contract with a potential non existing object, even if the Brazilian patent is “prima facie” invalid.<sup>165</sup> This is the reason to prefer treating both validity and infringement together rather than in different jurisdictions. If the U.S. court preempts these issues through the jurisdiction granted under state contract law, there will arise the problems of enforcing the decision if BRACOM does not have any asset in the U.S. as well as of increasing the probabilities of retaliation by Brazil.

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consolidate those cases with mixed reasons, i.e. validity treated in one country through a revocation action while there is an infringement action in another state, if those actions are pursued by private parties having a enforceable contract establishing an exclusive forum.

<sup>164</sup> That is the important function of article 7 of the 2003 Proposal requiring any court other than the chosen court to suspend or dismiss the proceedings with some exceptions.

<sup>165</sup> Let us recall that in terms of domestic US law, a licensee is able to oppose the validity of a patent to justify its denial to comply with the contract, which seems to be the optimal choice for balancing the interest of patent holders, potential competitors and consumers.

Overall, all of these options seem to justify the consolidation of all potential litigation in a single jurisdiction because otherwise both USCOM and BRACOM cannot easily split or reduce transaction costs through contractual negotiation as long as any promise made therein can be broken without any costs or any remedy for the parties.<sup>166</sup> A treaty such as the 2003 Proposal may impose such obligations on Brazil and the U.S. as well as private parties operating therein, which may result in decreasing the overall costs of the transaction making all the parties better off. Hence, enforcing the choice of forum according to the license seems to be *ex ante* in the best interest of all the concerned parties giving the opportunity to both USCOM and BRACOM to internalize the benefits and the costs of operating internationally under the current international patent system.

For example, by designating the U.S. as the selected forum BRACOM may be bound to not free ride on USCOM's innovative activity because it will be apprehensive of being held responsible for patent infringement. This in turn may mean that USCOM faces less cost of monitoring the licensing agreement, including avoiding litigation costs in Brazil, thus saving resources which may be split by both parties in the price or costs of the agreement. Due to those facts, USCOM or any of its competitors will be more interested in transferring technology to BRACOM who will also gain from the raising number of competitors of USCOM disclosing more and better information.

Hence, the 2003 proposal should include the enforcement and recognition of exclusive choice of courts even in cases involving the validity of foreign patent rights, which is a necessary condition for exercising jurisdiction over other potential issues such as infringement of patents or breach of contracts indirectly "regulating" said rights. Moreover, it may be a good idea to establish that any judgment over validity of foreign patents is to have *inter partes* effects, not only to overcome sensitive issues as the sovereignty of the registering state but also to avoid private parties abusing of such regulation in their own private benefits, practices that are to be endured as a minimum costs of such an international system. Establishing such a soft notion of claim preclusion is better than nothing given the current stage of the international patent system.<sup>167</sup> Even with this limitation, a holding with *inter partes* effects issued by a competent court may improve the quality and quantity of information regarding the validity and scope of protection of patents with important market value, which are the ones finally to be

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<sup>166</sup> For example a promise by BRACOM not to raise the issue of the validity for Brazilian patent on X may be declared void by a Brazilian court for "public reasons" prevailing over private parties will. In this regard it should be considered that many domestic patent laws contain criminal provisions to deter willful infringement, which may impose problems over an effective use of a treaty such as the 2003 Proposal, as it excludes criminal matters from its scope.

<sup>167</sup> The 2003 Proposal has the benefit of establishing issue preclusion, see article 9 (2) stating that any review by the addressed court should not include "the finding facts on which the court of origin based its jurisdiction".

litigated. Thus, a judgment holding either that patent X is valid or that BRACOM has not infringed it, may bring relevant information not only to the parties of the dispute but also to interested third parties. For instance, those who are analyzing whether to obtain a license for X or to design around it may have more information before making such choice. This is one of the social benefits of allowing a competent court to hold that X does not reach BRACOM activity, for that judgment will provide potential users of X and competitors of USCOM with useful information.

As it was pointed out above, the current 2003 Proposal does not include validity of patents as a matter to be enforced and recognized under the terms of a future treaty, although it seems to contain a gray area in those cases where validity arises as an incidental question. Given the reason stated above, I consider that the allocation of jurisdiction in the 2003 Proposal can be extended to include validity of patent as a matter to be mandatorily adjudicated by a selected court and enforced by an addressed forum but for some exceptions.

#### **Scenario 4:**

Here other players enter the game, ARGCOM an Argentinean company and UKCOM, a British company controlling subsidiaries in other European countries.

All of them are competitors of USCOM who had been granted patents for X in all those mentioned countries. Then USCOM and UKCOM entered a contract for technical assistance whereby the former provided the latter the use of X. ARGCOM has no relation with any of the said companies but is using a similar product or process to X in Argentina.

This is the sort of scenario where a system such as the 1999 Draft could be very useful and it may be the kind of scenario emerging from the expansion of globalization. If a single invention is globally used the chances to free ride also increase so that it may be desirable to consolidate most of the related actions in a single forum.

However, taking into account the costs of such system mentioned above, the 2003 Proposal is to be very helpful as a first stage of a more general system to litigate patents internationally. Under the relatedness rationale, the contract between USCOM and UKCOM should be consolidated and enforced according to its terms, and an Argentinean court should decide the potential infringement of X in Argentina. It is likely that the contract between USCOM and UKCOM establishes that potential disputes over infringement and validity of the patent for X are to be exclusively treated either by an arbitrator or a particular court. The cited growing use of the former should guide us to consider that the inclusion of validity of foreign patent into the 2003 Proposal has proper grounds to be further analyzed. The fact that there is to be a single dispute regarding the infringement/validity of X by UKCOM and/or some/all of its subsidiaries, implies making real most of the benefits cited in Section 3.

All these scenarios show that an agreement such as the 2003 Proposal may alleviate and reduce inefficiencies in favor of private parties and governments by avoiding overlapping trials with the inherent waste of private and public resources. These and the other advantages of international consolidation of patent disputes pointed out throughout this paper confer the basis to continue working for making all those theoretical benefits real.

### **5.2) Applying said rationale to establish a system of international patent litigation in the short term.**

Those scenarios mentioned above might suggest that a multinational system to allow the free flow of patent judgments is not necessary. However, as domestic patent laws become more harmonized and international patent disputes arise in number and importance, the work done by The Hague Conference should be taken into account by those trying to find solutions for this emerging matter.

In my opinion, any starting point for consolidating multinational patent disputes should take into account the existence of countries with symmetric and asymmetric incentives to regulate and thus to adjudicate said disputes. It should also differentiate between whether an international dispute involves related or unrelated parties from those countries.

This rationale may allow us to take a first step towards developing an efficient and fair system of international patent litigation.

Moreover, the inclusion of patents within the 2003 Proposal may have the advantage of not discriminating among different intellectual property rights to be included in a B2B transaction capable of being enforced across domestic borders.<sup>168</sup> This is important for there are many domestic systems with specific intellectual property rights that formally differ in names but apply to the same subject matter such as copyright and patents for software with practical applications.<sup>169</sup>

Another consideration regarding the current 2003 text is that some sort of formality may be desirable. Due to the importance of having a public notice that a domestic patent right can be enforced in a country other than the registering state, it seems to be a good idea to require some sort of registration of the contract within an official agency. Indeed, this formality is currently imposed in many countries as a requirement for the assignment and/or licensing of a contract, for the contract to have erga omnes effects as well as for receiving

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<sup>168</sup> See article 2 (k) excluding all intellectual property right but copyrights and related rights.

<sup>169</sup> Article 6 (c) of Argentinean Patent Law No. 24.481, as modified by National Law No. 24.572, states that software is not patentable while National Law No. 11.723 provides copyright protection (or more properly authorial rights) for software creations. However, there have been granted some patents for software when they have concrete practical application.

some tax benefits as in Argentina regarding the use of international treaties to avoid double imposition of income taxes.

Hence, I think that it is possible to include patent rights in the 2003 Proposal leaving it up to each country to decide whether to ratify or to observe the treaty regarding such complex and sensitive issue as international patent litigation. In doing so and because of the close link between international regulation of innovation and domestic economic development, this choice is likely to be best evaluated by LDCs governments having the responsibility of improving the standards of living of their habitants.

Regarding the core issue of allocating jurisdiction over validity of patents it seems that allowing a private party to raise the issue as a defense to oppose in an infringement action of a foreign patent is the best relative solution. Some of the reasons are the unfair results of denying such a defense to the alleged wrongdoer if that was agreed on an enforceable contract. Moreover doing otherwise may damage the dialogue among domestic courts to deal with foreign infringement of patent rights, which requires acquiring knowledge and working-expertise of foreign patent laws. This dialogue will become more necessary in the near future where a system to consolidate patent disputes is likely to be further demanded.

Implementing a broader system including disputes between related and unrelated parties such as the 1999 Proposal may be suitable for countries like the U.S. and the EU, whose relations in economic, political and cultural terms can be described as symmetric, at least if compared with other countries such as LDCs.

The chart below summarizes the rationale developed above and its application to the proposals of the Hague Conference.

**ALLOCATION  
OF JURISDICTION  
OVER INFRINGEMENT  
AND VALIDITY OF  
PATENTS**

**RELATED PARTIES**

FROM SYMMETRIC  
COUNTRIES  
1999 Draft or 2003 P.

FROM ASYMMETRIC  
COUNTRIES  
2003 P.

**UNRELATED PARTIES**

FROM SYMMETRIC  
COUNTRIES  
1999 Draft

FROM ASYMMETRIC  
COUNTRIES  
None

**CONCLUSION.**

Once the correlation between further harmonization of domestic substantive patent law and diminishing costs of litigating patent across domestic borders has been stated, we should agree that the design and implementation of a system to enforce patents rights across domestic borders has more advantages than disadvantages as innovative activity expands worldwide. Whether such a system should be implemented through bilateral instruments or a multinational treaty should be further analyzed.

However, it is clear that the ongoing works done within the Hague Conference require lawmakers to take into account the ongoing symmetric and asymmetric regulatory incentives of potential member countries.

Regarding countries with symmetric incentives, a project establishing the consolidation of disputes including unrelated parties such as the 1999 Draft could have more advantages than disadvantages. The main reason is that those countries are net export of goods to be protected by patents so they may have similar incentives to substantially regulate their systems in a similar way, i.e.: high patent protection, which may not increase the social costs faced by potential competitors already operating within those countries.

Regarding countries with asymmetric incentives such as Latin American countries and the U.S., a second distinction should be made between allowing the consolidation of disputes among related and not related parties. Consolidating disputes among related parties, for example based on a contractual relation, may have advantages for private parties as well as for domestic judicial systems of both sorts of countries. However, said consolidation should not be allowed in relation with unrelated parties as such a model might increase the costs of potential competitors in the net importer country, so that such a system may not be the best strategy for these sorts of countries in the medium and long term.

Because of all the foregoing a multilateral system generally adjudicating global patent litigation such as the 1999 Draft or some of the options of the 2001 Proposal is not likely to be adopted in the short term. However it is clear that a model such as the 2003 Proposal may bring potential benefits so that the inclusion of patents in such a model should still be analyzed within Hague Conference. Such inclusion may be the starting point of an incremental path of regulation towards the free flow of patent judgments, which in the future could surpass current concerns of consolidating patent disputes in a country other than the registering state to adjudicate both infringement and validity actions to the benefit of those with legitimate expectations on the matter.