

June 2002

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### Recommended Citation

Rochelle C. Dreyfuss & Jane C. Ginsburg, *Draft Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters*, 77 Chi.-Kent L. Rev. 1065 (2002).

Available at: <https://scholarship.kentlaw.iit.edu/cklawreview/vol77/iss3/5>

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# DRAFT CONVENTION ON JURISDICTION AND RECOGNITION OF JUDGMENTS IN INTELLECTUAL PROPERTY MATTERS\*

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## INTRODUCTION

The proposed Hague Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters is currently drafted to cover most fields of private litigation, including intellectual property.<sup>1</sup> However, as those following the Hague process are aware, the Convention has run into considerable difficulties. There is currently reason to be concerned that it may not be promulgated at all, or that if it is promulgated, that it will be reduced in scope and cover only select areas of litigation, likely not to include intellectual property. This proposal is meant to spur the intellectual property bar to consider whether it would be desirable to create a regime for international enforcement of intellectual property law judgments in the event that efforts at the Hague do not come to fruition in a manner that covers disputes in this area. A second question is whether, even if proceedings at the Hague do go forward, an instrument aimed exclusively at intellectual property matters would have advantages over a convention of more general scope. Such a convention could be adopted un-

\* Thanks to Graeme Austin, Joachim Bonell, Ruth Day, François Dessemontet, Graeme Dinwoodie, Jonathan Franklin, Catherine Kessedjian, Andreas Lowenfeld, and Linda Silberman, and to the commentators at the Chicago-Kent College of Law Symposium on "Constructing International Intellectual Property Law: The Role of National Courts," October 18-19, 2001. This work was supported by the Filomen D'Agostino and Max E. Greenberg Research Fund of New York University School of Law, and by a summer research grant from Columbia Law School.

The American Law Institute has begun a project to base Principles of Jurisdiction, Conflict of Laws and Recognition of Judgments in Transnational Intellectual Property Matters on the Draft Convention. The Reporters for the Principles are Professors Dreyfuss and Ginsburg, and Professor François Dessemontet of the University of Lausanne, Switzerland.

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1. Hague Conference on Private International Law, Preliminary Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters, drafts at <http://www.hcch.net/e/conventions/draft36e.html> (Oct. 30, 1999) [hereinafter 1999 Draft Hague Convention].

der the auspices of the World Intellectual Property Organization ("WIPO") or through the World Trade Organization ("WTO").

There are several reasons to believe that an instrument drafted specifically for intellectual property disputes would be particularly advantageous. First, as it stands, the proposed Hague Convention is mainly aimed at facilitating the enforcement of judgments; it includes features that would also make the adjudication of multinational disputes more efficient, but that is not its primary goal. Yet, for intellectual property disputes, efficiency should be a principal target. Modern distribution methods, particularly satellite and Internet transmissions, make it increasingly likely that intellectual property rights will be exploited simultaneously in more than one territory. The ability to consolidate claims arising from these usages in one court, with the expectation that the judgment of that court will be recognized in all convention States, could reduce costs for all sides, conserve judicial resources on an international basis, and promote consistent outcomes.

Second, a convention drafted for intellectual property disputes can take account of issues uniquely raised by the intangibility of the rights in issue. For example, where a general convention's jurisdiction provisions speak generally of "acts," "omissions," and their foreseeability, an instrument on intellectual property disputes can be geared specifically to the events that comprise infringement. Where a general convention may be concerned with curtailing forum shopping by potential plaintiffs, an intellectual property agreement can also consider the ability of a potential defendant to gain litigation advantages through the choice of the location of the activities that give rise to infringement. In certain situations, the propriety of expanding jurisdiction depends on the possibility of inconsistent outcomes; a convention tailored to intellectual property can specify what that term means in the context of public goods.

An instrument for intellectual property litigation can also deal specifically with matters of unique concern to the creative community. The strong link between culture on the one hand, and intellectual production and utilization on the other, means that the territoriality of these rights is of crucial importance: individual nations must be able to retain some control over the local conditions under which these products are created, exploited, and accessed. At the same time, an approach that creates new avenues for cross-cultural enrichment needs to be considered. While it would be

difficult to develop choice of law rules in the context of a general convention, it is possible to consider them here, where inherent territorial limits are well established in domestic legislation, case law, and longstanding international instruments. Similarly, the circumstances where trans-border injunctions are permissible can be specified to include consideration of cultural, health, and safety issues. Other issues of prime interest to the information industries can also be considered. For example; provisions on contract disputes can be tailored to deal with mass-market contracts, which are becoming prevalent in certain intellectual property transactions; provisions on infringement can be made sensitive to the interests of the "new media," such as Internet Service Providers.

Most important, the convention can be confined to rights covered by the intellectual property part of the General Agreement on Tariffs and Trade ("TRIPs Agreement") and open to signature only to countries that have joined the WTO and fully implemented the TRIPs Agreement.<sup>2</sup> Since these are countries that have agreed to enforce intellectual property law and are subject to dispute resolution proceedings if they fail to do so, these limitations would reduce concerns, sometimes expressed in connection with the draft Hague Convention, that forum shopping will undermine the delicate balance that each nation has struck between the rights of intellectual property users and owners. And although dispute resolution under the WTO cannot provide litigants with a substitute for a centralized and authoritative appellate body (such as the US Supreme Court or the European Court of Justice), it can provide assurance of transparent and efficient judicial process, along with institutional mechanisms (such as dispute resolution panels, the Dispute Settlement Board, and the Council for TRIPs) for examining intellectual property law as it develops through consolidated adjudication of multinational disputes.

### EXECUTIVE SUMMARY

This proposal is adapted from the October 30, 1999 text of the Hague Conference Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters.<sup>3</sup> Like the proposed

2. Agreement on Trade-Related Aspects of Intellectual Property Rights, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND vol. 31 (1994), 33 I.L.M. 81 (1994) [hereinafter TRIPs Agreement].

3. The 1999 version of the Hague Convention is not the most recent draft. However, it is the version under consideration at the time this project began and remains the only completed

Hague Convention, the right to enforce a judgment in member States depends on whether the court issuing the judgment enjoyed an approved basis of jurisdiction over the litigants. However, alterations have been made to better tailor the convention to intangible rights and to the needs of the creative community, including both producers and users of intellectual products. The principal areas where changes have been made are as follows:

1. Scope. The Convention would be open only to TRIPs implementers and, with three additions and one exception, it would cover the same rights covered by the TRIPs Agreement.

The first addition is sound recordings. Although the combination of the Berne Convention<sup>4</sup> and the TRIPs Agreement cover the rights of composers and performers with respect to the making of sound recordings and the rights of producers as to the reproduction of sound recordings, communication to the public is not covered. At the same time, however, there appears to be international consensus that communication of the sound recordings (performance rights) should be protected against at least some kinds of unauthorized communication to the public (WIPO Performances and Phonograms Treaty).<sup>5</sup> Because these instruments adopt principles akin to those found in the TRIPs Agreement, and because enforcing rights under these instruments raises problems similar to those arising in litigation involving TRIPs Agreement rights, communication rights are included in this Convention.

The second and third additions are disputes over domain names and rights specified in the Paris Convention.<sup>6</sup> These are not yet clearly fully protected by TRIPs. Again, because the principles of protection and the problems of enforcement are so similar to the rights clearly covered by the TRIPs Agreement, they are included in the scope of this Convention.

The exception is patent litigation, where the expertise required for accurate decision making, coupled with the low incidence of si-

rendition of a judgments convention. Accordingly, it forms the basis of this project. Where ideas were taken from later revisions, they are expressly noted.

4. Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, as last revised at Paris, July 24, 1971 (amended 1979), S. Treaty Doc. No. 99-27, 828 U.N.T.S. 221 [hereinafter Berne Convention].

5. WIPO Performances and Phonograms Treaty, Dec. 20, 1996, S. Treaty Doc. No. 105-17, 36 I.L.M. 76.

6. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, as last revised at Stockholm, July 14, 1967 (amended 1979), 21 U.S.T. 1583, 828 U.N.T.S. 305 [hereinafter Paris Convention].

multaneous multinational infringements, makes the benefits of the Convention unlikely to outweigh the costs. Although this draft demonstrates [in brackets] how patent litigation could be treated to minimize costs, it takes the position, elaborated upon in the commentary, that patent disputes should remain outside the Convention, leaving international concepts concerning consolidation of worldwide disputes and enforcement of foreign judgments to develop on their own.

2. Jurisdiction. Unlike the Brussels Convention,<sup>7</sup> which attempts to use personal jurisdiction as a way to identify one forum as the single most appropriate location for the resolution of a particular dispute, and unlike the Hague Convention, which uses personal jurisdiction to create a narrow range of appropriate choices, this Convention identifies a set of fora with adjudicatory authority over the parties. In part, this is a consequence of the commitment to consolidation and cooperation. The parties' choices need not be narrowed if all courts seized with parallel litigation will, ultimately, consult with one another and with the parties to find the best place to adjudicate the entire dispute. Conversely, the courts and parties can select a better forum (in terms of convenience for the parties and witnesses, expertise of the decision maker, and relationship to the dispute) if there are several courts that enjoy adjudicatory authority. In part, this decision also emanates from the view that forum shopping in intellectual property disputes cannot, in any event, be controlled through personal jurisdiction rules: intangible rights and infringements can be reified in too many locations to make personal jurisdiction an effective limit on potential fora.

Like the proposed Hague Convention, this is a "mixed" convention. It describes bases of jurisdiction that are predicates to enforcement in all member States and it describes bases of jurisdiction that

7. 1968 Brussels Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters, Sept. 27, 1968, 1972 O.J. (L 299) 32, *reprinted in* 8 I.L.M. 229 (1969) (text as amended by the Convention on the Accession of the Kingdom of Denmark, Ireland and the United Kingdom of Great Britain and Northern Ireland to the Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters and to the Protocol on Its Interpretation by the Court of Justice, *reprinted at* 18 I.L.M. 21 (1979)) [hereinafter Brussels Convention]; *see also* Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters, Sept. 16, 1988, 1988 O.J. (L 319) 9, *reprinted in* 28 I.L.M. 620 (1989) [hereinafter Lugano Convention]. The Brussels Convention is currently being revised. *See* Council Regulation (EC) No 44/2001 of 22 December 2000 on Jurisdiction and the Recognition and Enforcement of Judgments in Civil and Commercial Matters, art. 28, 2001 O.J. (L 012) 1, 9 [hereinafter Revised Brussels]. Unless otherwise noted, references are to the current version of the Brussels and Lugano Conventions.

are prohibited in cases involving foreign habitual residents of member States. It leaves member States free to decide for themselves the conditions under which judgments predicated on other bases of jurisdiction are enforceable.

3. Contract disputes. Because arbitration is now a common way to resolve intellectual property disputes, this proposal makes membership in the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (“New York Convention”) a precondition.<sup>8</sup>

Mass-market contracts (sometimes called “shrinkwrap” or “click through” agreements) are also becoming increasingly common in intellectual property transactions. The enforceability of these agreements has been quite controversial and the Convention takes the position that the inability to negotiate does raise special concerns. Accordingly, the enforceability of any contract provision affecting the place of dispute resolution is subject to a requirement of negotiation or, in nonnegotiated contracts, reasonableness in the choice of forum. Factors taken into account in assessing the reasonableness of the chosen forum include whether, in the absence of a forum-selection clause, the chosen forum would have had jurisdiction over the non-drafting party.

4. Infringement actions. This instrument adapts jurisdictional doctrines regarding tort actions to tailor them to the context of intellectual property infringement and to the issues raised by the distribution of works in a digital environment. In addition, this proposal deals with “new media” defendants, such as Internet Service Providers. US law does not require special procedural protection for media defendants because substantive law has many explicit safeguards on the use of litigation to chill expression. In the absence of such safeguards in the domestic laws of every member State, it was thought necessary to create procedural protections in the form of immunity from suit in locations where contacts are purely passive.

5. Consolidation. A central insight animating this proposal is that efficient adjudication of intellectual property disputes is a benefit—to the parties, to the nations whose judicial resources would otherwise be redundantly utilized, and to the development of sound intellectual property law. Both US and European laws have mecha-

8. Convention on the Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, 21 U.S.T. 2517, 330 U.N.T.S. 38 [hereinafter New York Convention].

nisms to promote consolidation, and the techniques of both systems are invoked here.

a) The multiple-defendant and third-party provisions of the 1999 draft of the Hague Convention are utilized to expand the number of courts with adjudicatory power over all the defendants. These provisions have, however, been altered to make them compatible with the US conception of due process.

b) The *lis pendens* provision of the 1999 draft of the Hague Convention has been utilized to consolidate before a court first seized with a coercive action, all transactionally related claims arising from a single territory's intellectual property rights.

c) For cases where parallel litigation is ongoing in several territories, the consolidation provision of the Brussels Convention has been adapted to encourage all of the courts seized with parts of a multinational dispute to cooperate with one another and with the parties to choose a forum for centralized dispute resolution.

d) Consolidation is further promoted by giving each court unilateral power under a US-style *forum non conveniens* doctrine to suspend proceedings in favor of a more appropriate forum. At the same time, this doctrine is limited to prevent courts from dismissing causes of action simply because they are based on foreign law.

e) The proposal allows parties to promote complete resolution of their disputes by permitting them to assert supplemental claims, such as transactionally related counterclaims, including counterclaims for declarations of rights. The proposal could go further and use US-style *res judicata* law to *require* the parties to assert transactionally related claims (under penalty of claim and issue preclusion), but does not do so out of deference to the less aggressive nature of *res judicata* law in other parts of the world.

6. Remedies. This proposal makes clear that the monetary and injunctive awards rendered by courts with proper authority over the parties must be recognized by all member States. But there are exceptions. Compensatory relief must always be recognized, even if based on statutory amounts rather than proof of actual damages. However, exemplary and punitive awards are recognized only to the extent recognized by the enforcing jurisdiction. Both permanent and preliminary injunctions must generally be recognized. Moreover, courts may decline to enforce injunctions where its territory's health, safety, or fundamental cultural policies are at stake, but normally only if damages would afford effective relief in that territory. Courts



other than the one where the action is pending are also able to order enforceable preliminary injunctive relief, but such relief must be limited to the territory of the court and to its territorial rights.

7. Choice of law. One reason that segments of the intellectual property bar have been opposed to the draft Hague Convention is that they fear that the territorial nature of intellectual property law will be lost. Because this notion is mainly based on the risk that a court will apply the wrong law to a dispute (this is most often expressed as the court will apply forum law to foreign activities), consideration was given to incorporating choice of law rules into the Convention, and to making enforcement turn on both an appropriate basis of personal jurisdiction and an application of appropriate law. The problem with this approach is that it could lead, in essence, to relitigation of every case in the enforcing court. Nonetheless, because the use of inappropriate law is a special danger in intellectual property litigation, consideration is being given to adding a new ground for nonrecognition to those listed in the draft Hague Convention. This provision would permit a court where recognition is sought to deny enforcement when the rendering court's choice of law was arbitrary or unreasonable. Indicia of arbitrariness and unreasonableness would be worked out in commentary.

The text of the proposed Convention is immediately below. It is followed by draft comments. The intent of this project is to demonstrate that it is feasible to draft an international agreement on enforcing intellectual property judgments; should such a proposal go forward, its provisions would be subject to negotiation and revision. Many issues require further elaboration. The remedies sections await further consideration of choice of law issues. Specifics about choice of law also need to be considered in light of the Rome Convention on Contracts and an eventual Rome Convention on Torts.<sup>9</sup> Should a Hague Judgments Convention that excluded intellectual property be adopted, work on the interaction between the two instruments would be necessary. Work is also needed on the relationship between this Convention and the American Law Institute International Jurisdiction and Judgments Project<sup>10</sup> and on how litigation in nonmember States will be treated.

9. See generally Kurt Siehr, *Revolution and Evolution in Conflicts Law*, 60 LA. L. REV. 1353 (2000).

10. Draft documents on this project are available through the American Law Institute's website, at <http://www.ali.org/>.

## DRAFT CONVENTION

*Draft Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters***Preliminary matters: coverage**

- This is a draft Convention on jurisdiction and recognition of judgments.
- Countries eligible to join the Convention are WTO members whose obligations under the TRIPs Agreement have come due. The Convention might itself be an appendix to TRIPs.
- Because arbitration is likely to become increasingly important in intellectual property matters, signatories to this Convention must also be members of the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (hereafter the New York Convention).
- Subject matter covered: registered and nonregistered intellectual property rights, including: [patent,] copyright and neighboring rights, trademark, and other intellectual property rights covered by TRIPs and its successor agreements, as well as rights of communication to the public right in sound recordings [and unfair competition claims].

## Initial Comment on Coverage

This is a proposed Convention on jurisdiction and recognition of judgments in intellectual property cases. The digital networked environment is increasingly making multiterritorial simultaneous communication of works of authorship, trade symbols, and other intellectual property, a common phenomenon. The likelihood of multiterritorial infringements increases accordingly. In this environment, the practical importance of adjudicating a multiterritorial claim in a single forum should be readily apparent. Indeed, without consolidation of claims and recognition of judgments, effective enforcement of intellectual property rights, and by the same token, effective defenses to those claims, may be illusory for all but the most wealthy litigants.

The following text is based in part on the work of the Hague Conference Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters, particularly its Oct. 30, 1999 text, and on the work of the American Law Institute International Jurisdiction and Judgments Project. Although these proposed instruments

include general provisions regarding adjudication of tort and contract claims, and although unauthorized use of intellectual property comes within their scope (as either the tort of infringement or as breach of a contract), intellectual property litigation presents special problems. For example, localizing torts involving intangible rights can be difficult, especially when the activity involves digital works transmitted through the Internet; mass-market licenses may pose problems different from those encountered in consumer contracts generally. Moreover, some of the rules proposed in these other instruments, particularly those regarding consolidation of claims, and multiple defendants, are not always well-tailored to intellectual property disputes. This Convention deals with these special problems by building on the work of both the Hague Conference and the ALI.

## CHAPTER—SCOPE OF THE CONVENTION

### Article 1 Substantive Scope

1. The Convention applies to copyright, neighboring rights, [patents,] trademarks, other intellectual property rights, and rights against unfair competition, as covered by the Agreement on Trade Related Aspects of Intellectual Property, and its successor Agreements. In addition, this Convention applies to rights over communication to the public of Sound Recordings and to claims involving domain names.

2. A dispute is not excluded from the scope of the Convention by the mere fact that a government, a governmental agency or any other person acting for the State is a party thereto.

3. Nothing in this Convention affects the privileges and immunities of sovereign States or of entities of sovereign States, or of international organizations.

4. This Convention does not apply to:

a. Cases in which intellectual property claims are an incidental matter, and

b. Enforcement of arbitral awards that are subject to the New York Convention.

### Article 2 Territorial Scope

1. A State is eligible to become a Contracting State if it is a member of the World Trade Organization, and has become obligated to fully implement the TRIPs Agreement, and is also a member of the New York Convention.

2. The provisions of Chapter II shall apply in the courts of a Contracting State unless all the parties are habitually resident in that State. However, even if all the parties are habitually resident in that State—

a. Article 4 shall apply if they have agreed that a court or courts of another Contracting State have jurisdiction to determine the dispute;

b. [Article 8, regarding exclusive jurisdiction over declaratory judgment actions concerning patent validity, shall apply;]

c. Articles 12 and 14 shall apply where the court is required to determine whether to decline jurisdiction or suspend its proceedings on the grounds that the dispute ought to be determined in the courts of another Contracting State.

3. The provisions of Chapter III apply to the recognition and enforcement in a Contracting State of a judgment rendered in another Contracting State.

## *CHAPTER II—JURISDICTION*

### **Article 3 Defendant's Forum**

1. Subject to the provisions of the Convention, a defendant may be sued in the courts of the State where that defendant is habitually resident.

2. For the purposes of the Convention, an entity or person other than a natural person shall be considered to be habitually resident in the State—

- a. where it has its statutory seat,
- b. under whose law it was incorporated or formed,
- c. where it has its central administration, or
- d. where it has its principal place of business.

### **Article 4 Agreements Pertaining to Choice of Court**

1. If the parties have agreed that a court or courts of a Contracting State shall have jurisdiction to settle any dispute which has arisen or may arise in connection with a particular legal relationship, that court or those courts shall have jurisdiction, and its jurisdiction shall be exclusive unless the parties have agreed otherwise. Where an agreement having exclusive effect designates a court or courts of a non-Contracting State, the courts in Contracting States shall decline jurisdiction or suspend proceedings unless the court or courts chosen have themselves declined jurisdiction.

2. An agreement within the meaning of paragraph 1 shall be valid as to form, if it was entered into or confirmed—

- a. in writing;
- b. by any other means of communication which renders information accessible so as to be usable for subsequent reference;
- c. in accordance with practices established between the parties;
- d. in accordance with a usage of which the parties were or ought to have been aware and which is regularly observed by parties to contracts of the same nature in the particular trade or commerce concerned.

3. In nonnegotiated contracts, an agreement within the meaning of paragraph 1 shall be valid if the designated Contracting State or forum is reasonable in light of—

- a. the location of the non-contract-drafting party,
- b. the availability of online dispute resolution or other forms of virtual representation,
- c. the resources of the parties; in particular, of the non-contract-drafting party,
- d. the sophistication of the parties; in particular, of the non-contract-drafting party,
- e. the substantiality of the connection between the designated forum, and the parties or the substance of the dispute, including whether the designated forum would have had jurisdiction over the non-drafting party in the absence of a forum-selection clause
- f. for registered rights, whether the designated forum was established by the State to foster expertise in adjudicating disputes of this type.
- g. whether the terms of the agreement were sufficiently apparent with respect to accessibility, typographic readability, and national language so as not to cause surprise.

#### **Article 5 Appearance by the Defendant**

1. [Subject to Article 8,] a court has jurisdiction if the defendant proceeds on the merits without contesting jurisdiction.

2. The defendant has the right to contest jurisdiction no later than at the time of the first defense on the merits.

3. If defendant does not appear, the court may enter judgment. However, if local rules so permit, it must satisfy itself that the plaintiff's assertions of the bases of jurisdiction are well-founded.

### **Article 6 Infringement Actions**

1. A plaintiff may bring an infringement action in the courts of—
  - a. any State where defendant substantially acted (including preparatory acts) in furtherance of the alleged infringement, or
  - b. any State to which the alleged infringement was intentionally directed, including those States for which defendant took no reasonable steps to avoid acting in or directing activity to that State, or
  - c. any State in which the alleged infringement foreseeably occurred unless the defendant took reasonable steps to avoid acting in or directing activity to that State.

2. If an action is brought in the courts of a State only on the basis of the intentional direction of the alleged infringement to that State, then those courts shall have jurisdiction only in respect of the injury arising out of unauthorized use occurring in that State, unless the injured person has his habitual residence or principal place of business in that State.

3. If an action is brought in the courts of a State only on the basis of the occurrence of the infringement in that State, then those courts shall have jurisdiction only in respect of the injury arising out of unauthorized use occurring in that State.

4. Notwithstanding arts. 6.1(b) and (c), and 6.2, an Internet service provider shall not be subject to jurisdiction on the basis of claims arising out of activity occurring outside the forum State, if the activity is solely related to the provider's transmitting, routing, or providing connections for material through a system or network controlled or operated by or for the service provider, or if the activity solely concerns the intermediate and transient storage of that material in the course of such transmitting, routing, or providing connections, if:

- a. The transmission of the material was initiated by or at the direction of a person other than the access provider;
- b. The transmission routing, provision of connections, or storage is carried out through an automatic technical process without selection of the material by the service provider;
- c. The service provider does not select the recipients of the material except as an automatic response to the request of another person;
- d. No copy of the material made by the service provider in the course of such intermediate or transient storage is maintained on the system or network in a manner ordinarily accessible to anyone

other than anticipated recipients, and no such copy is maintained on the system or network in a manner ordinarily accessible to such anticipated recipients for a longer period than is reasonably necessary for the transmission, routing, or provision of connections; and

e. The material is transmitted through the system or network without modification of its content.

#### **Article 7 Agreements Pertaining to Intellectual Property Rights**

1. An action to enforce an agreement pertaining to intellectual property may be brought in any country whose rights are covered by the agreement.

2. In nonnegotiated contracts, the court should also consider the factors listed in Article 4.3.

#### **Article 8 Declaratory Judgments**

1. Actions for a declaration of rights may be brought on the same terms as an action seeking substantive relief.

2. [However, in proceedings which have as their object the obtaining of a declaration of the invalidity or nullity of a registration of patents, 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. The issue of invalidity of a patent granted under the laws of another country may be adjudicated in an infringement action brought pursuant to the rules of this Convention.]

#### **Article 9 Counterclaims and Supplemental Claims**

1. A court that has jurisdiction to determine a claim under the provisions of the Convention also has jurisdiction to determine all claims between the parties arising out of the transaction or series of transactions or occurrence on which the original claim is based, irrespective of the territorial source of the rights at issue, and irrespective of which party asserts them.

2. A court may decline to exercise jurisdiction over a supplemental claim unrelated to intellectual property rights if it substantially predominates over the claims properly within the scope of the Convention.

#### **Article 10 Multiple Defendants**

1. A plaintiff bringing an action against a defendant in a court of the State in which that defendant is habitually resident may also proceed in that court against other defendants not habitually resident in that State if—

a. the claims against the defendant habitually resident in that State and the other defendants are so closely connected that they should be adjudicated together to avoid a risk of inconsistent judgments, and

b. as to each defendant not habitually resident in that State, there is a substantial connection between that State's intellectual property rights and the dispute involving that defendant, or

c. as between the States in which the other defendants are habitually resident, and the forum, the forum is the most closely related to the entire dispute, and there is no other forum in which the entire dispute could be adjudicated.

2. Paragraph 1 shall not apply to a codefendant invoking an exclusive choice of court clause agreed with the plaintiff and conforming with Article 4.

### **Article 11 Third Party Claims**

1. A court that has jurisdiction to determine a claim under the provisions of the Convention shall also have jurisdiction to determine a claim by a defendant against a third party for indemnity or contribution in respect of the claim against that defendant to the extent that such an action is permitted by national law, provided that there is a substantial connection between that State's intellectual property rights and the dispute involving that third party.

2. Paragraph 1 shall not apply to a third party invoking an exclusive choice of court clause agreed with the defendant and conforming with Article 4.

### **Article 12 Lis Pendens**

1. Subject to Article 13 and provided that the court second seized does not have exclusive jurisdiction under Article 4, when the same parties are engaged in proceedings in courts of different Contracting States, the court second seized shall suspend the proceedings if the court first seized has jurisdiction and is expected to render a judgment capable of being recognized under the Convention in the State of the court second seized, irrespective of the relief sought, when:

a. the claims arise from a single territory's intellectual property rights, or

b. the claims arise out of the same transaction or series of transactions or occurrence.

2. Paragraph 1 does not apply if the court second seized has exclusive jurisdiction under Article 4.



3. The court second seized shall decline jurisdiction as soon as it is presented with a judgment rendered by the court first seized that complies with the requirements for recognition or enforcement under the Convention.

4. Upon application of a party, the court second seized may proceed with the case if the plaintiff in the court first seized has failed to take the necessary steps to bring the proceedings to a decision on the merits or if that court has not rendered such a decision within a reasonable time.

5. If in the action before the court first seized, the plaintiff seeks a determination that it has no obligation to the defendant, and if an action seeking substantive relief is brought in the court second seized

a. the provisions of paragraphs 1–4 above shall not apply to the court second seized, unless the declaratory judgment plaintiff has advanced its claim as part of an action initiated before the court first seized by the declaratory judgment defendant, and

b. the court first seized shall suspend the proceedings at the request of a party if the court second seized is expected to render a decision capable of being recognized under the Convention.

6. The provisions of the preceding paragraphs apply to the court second seized even in a case where the jurisdiction of that court is based on the national law of that State in accordance with Article 15.

7. For the purpose of this Article, a court shall be deemed to be seized—

a. at the time when the document instituting the proceedings or an equivalent document is lodged with the court, provided that the plaintiff has not subsequently failed to take the steps he was required to take to have service effected on the defendant, or

b. if the document has to be served before being lodged with the court, at the time when it is received by the authority responsible for service, provided that the plaintiff has not subsequently failed to take the steps he was required to take to have the document lodged with the court.

### **Article 13 Consolidation of Territorial Claims**

1. Upon the motion of a party, or *sua sponte*, the court first seized should consider the advantages of worldwide resolution of the dispute among the parties through consolidation of related pending actions, and through inviting the parties to assert all intellectual property claims related to the action in a single forum.

2. For the purposes of this Article, actions are deemed to be related where, irrespective of the territorial source of the rights and the relief sought, the claims arise out of the same transaction or series of transactions or occurrence.

3. In deciding whether and how to consolidate the action, the court should consult with the parties and with other courts in which related actions are pending, and together they should consider:

a. in general, whether consolidating would promote efficiency and conserve judicial resources and the resources of the parties, including whether the difficulty of managing the litigation outweighs the benefits of consolidation;

b. whether or not inconsistent judgments could result if multiple courts adjudicated the related claims.

4. The issue of consolidation must be raised no later than at the time of the first defense on the merits.

5. If there is no consolidation of related actions, the judgment in one action shall not be preclusive of the other.

#### **Article 14 Exceptional Circumstances for Declining Jurisdiction**

1. In exceptional circumstances, when the jurisdiction of the court seized is not founded on an exclusive choice of court agreement valid under Article 4, [or on Article 8] the court may, on application by a party, suspend its proceedings if in that case a court of another State has jurisdiction and is clearly more appropriate to resolve the dispute. Such application must be made no later than at the time of the first defense on the merits.

2. The court shall take into account, in particular—

a. any inconvenience to the parties in view of their habitual residence;

b. the nature and location of the evidence, including documents and witnesses, and the procedures for obtaining such evidence;

c. applicable limitation or prescription periods;

d. the possibility of obtaining recognition and enforcement of any decision on the merits;

e. whether the Contracting State in which the court seized is located has the most significant relationship to the parties or the claims;

f. [in patent cases, the expertise of the judicial system of the Contracting State in which the court seized is located.]

3. In cases involving consolidation, the court should also consider

a. whether the court first seized has jurisdiction over as many parties as another court, including courts in which related claims are pending, unless the economic center of gravity of the case is in the court first seized;

b. whether the court has, relative to another court, including courts seized with related causes of action, the subject matter authority to adjudicate all of the territorial rights put into issue, unless the economic center of gravity of the case is in the court first seized;

c. in disputes over contract rights, whether the court has the most significant relationship to the contract. In particular, the court should take into account:

(1) the residence of the parties;

(2) the country in which the intellectual property was developed;

(3) the country in which the principal obligation under the contract is to be performed.

4. In deciding whether to suspend the proceedings, a court shall not discriminate on the basis of the nationality or habitual residence of the parties.

5. A court shall not dismiss or suspend the proceedings on the sole ground that the case raises questions of foreign law.

6. If the court decides to suspend its proceedings under paragraph 1, it may order the defendant to provide security sufficient to satisfy any decision of the other court on the merits. However, it shall make such an order if the other court has jurisdiction only under Article 15, unless the defendant establishes that sufficient assets exist in the State of that other court or in another State where the court's decision could be enforced.

7. When the court has suspended its proceedings under paragraph 1,

a. it shall decline to exercise jurisdiction if the court of the other State exercises jurisdiction, or if the plaintiff does not bring the proceedings in that State within the time specified by the court, or

b. it shall proceed with the case if the court of the other State decides not to exercise jurisdiction.

### **Article 15 Jurisdiction Based on National Law**

Subject to Articles 4, 5, [8,] and 19, the Convention does not prevent the application by Contracting States of rules of jurisdiction under national law, provided that this is not prohibited under Article 16.

### **Article 16 Prohibited Grounds of Jurisdiction**

1. Jurisdiction shall not be exercised by the courts of a Contracting State on the basis solely of any of the following:

- a. the presence or the seizure in that State of tangible property belonging to the defendant, except where the dispute is directly related to that property;
- b. the presence or the seizure in that State of intellectual property belonging to the defendant, except where the dispute is directly related to that intellectual property;
- c. the nationality of the plaintiff;
- d. the nationality of the defendant;
- e. the domicile, habitual or temporary residence, or presence of the plaintiff in that State;
- f. the carrying on of commercial or other activities by the defendant in that State, except where the dispute is directly related to those activities;
- g. the service of a writ upon the defendant in that State;
- h. the temporary residence or presence of the defendant in that State;
- i. the signing in that State of the contract from which the dispute arises.

### **Article 17 Authority of the Court Seized**

Where the defendant does not enter an appearance, the court shall verify whether Article 16 prohibits it from exercising jurisdiction if—

- a. national law so requires; or
- b. the plaintiff so requests.

### **Article 18 Verification of Notice**

1. The court shall stay the proceedings so long as it is not established that the document which instituted the proceedings or an equivalent document, including the essential elements of the claim, was notified to the defendant in sufficient time and in such a way as to enable the defendant to arrange for a defense, or that all necessary steps have been taken to that effect, under the law of the State of the court first seized.

2. Paragraph 1 shall not affect the use of international instruments concerning the service abroad of judicial and extrajudicial documents in civil or commercial matters, in accordance with the law of the forum.

3. Paragraph 1 shall not apply, in case of urgency, to any provisional or protective measures.

#### **Article 19 Provisional and Protective Measures**

1. The court having jurisdiction under the rules of this Convention to determine the merits of the case has jurisdiction to order any provisional or protective measures, including trans-border injunctions.

2. The courts of a State in which intellectual or tangible property is located have jurisdiction to order any provisional or protective measures in respect of that property.

3. Courts in other Contracting States not having jurisdiction under paragraphs 1 or 2 may order provisional or protective measures, provided that—

a. their enforcement is limited to the territory of that State; and

b. their purpose is to protect on an interim basis a claim on the merits which is pending or to be brought by the requesting party.

### **CHAPTER III—RECOGNITION AND ENFORCEMENT**

#### **Article 20 Definition of “Judgment”**

For the purposes of this Chapter, “judgment” means—

a. any decision given by a court, whatever it may be called, including a decree or order, as well as the determination of costs or expenses by an officer of the court, provided that it relates to a decision which may be recognised or enforced under the Convention;

b. decisions ordering provisional or protective measures in accordance with Article 19, paragraph 1.

#### **Article 21 Verification of Jurisdiction**

1. Except in cases where the defendant has waived a challenge to jurisdiction by joining issue on the merits of the case in accordance with Article 5.2, the court addressed shall verify the jurisdiction of the court of origin. In cases where objections to jurisdiction are waived through appearance, the court addressed shall verify that issue was joined without contesting jurisdiction.

2. In verifying the jurisdiction of the court of origin, the findings of fact on which the court of origin based its jurisdiction shall be presumed correct. However, this presumption does not apply if the judgment was given by default.

3. In verifying the jurisdiction of the court of origin when that court has rendered a default judgment, the court addressed must satisfy itself that the plaintiff’s assertions of the bases of jurisdiction under this Convention and under the law of the State of the court of origin were well-founded.

4. Recognition or enforcement of a judgment may not be refused on the ground that the court addressed considers that the court of origin should have declined jurisdiction in accordance with Article 14.

**Article 22 Judgments Excluded from Chapter III**

This Chapter shall not apply to judgments based on a ground of jurisdiction provided for by national law in accordance with Article 15.

**Article 23 Judgments to be Recognized or Enforced**

1. A judgment that is within a basis of jurisdiction provided for in this Convention shall be recognized or enforced under this Chapter.

a. In order for its judgment to be recognized and enforced under this Convention, the rendering court must declare that its judgment comes within the scope of the Convention. A party may at any point in the proceedings request the court to so declare.

b. In order to be recognized, a judgment referred to in paragraph 1 must be recognized in the State of origin.

c. In order to be enforceable, a judgment referred to in paragraph 1 must be enforceable in the State of origin.

d. However, recognition or enforcement may be postponed if the judgment is the subject of review in the State of origin or if the time limit for seeking a review has not expired.

e. The preclusive effect of a judgment shall be no greater than its effect in the State of origin.

**Article 24 Judgments Not to be Recognized or Enforced**

A judgment based on a ground of jurisdiction which conflicts with Articles 4, 5, 7, [or 8,] or whose application is prohibited by virtue of Article 16, shall not be recognized or enforced.

**Article 25 Grounds for Refusal of Recognition or Enforcement**

1. Recognition or enforcement of a judgment may be refused if—

a. proceedings between the same parties and having the same subject matter are pending before a court of the State addressed, if first seized in accordance with Article 12 or if consolidated in accordance with Article 13;

b. the judgment is inconsistent with the judgment of the court first seized, or if the actions were consolidated in accordance with Article 13, the judgment is inconsistent with the judgment of the court of consolidation;

c. the document which instituted the proceedings or an equivalent document, including the essential elements of the claim, was not notified to the defendant in sufficient time and in such a way as to enable the defendant to arrange for a defense;

d. the rendering court's jurisdiction was based on a nonnegotiated contract whose forum designation was unreasonable under Article 4.3;

e. the judgment results from proceedings incompatible with fundamental principles of procedure of the State addressed, including the right of each party to be heard by an impartial and independent court;

f. the judgment was obtained by fraud in connection with a matter of procedure;

g. recognition or enforcement would be manifestly incompatible with the public policy of the State addressed;

h. where the rendering court's choice of law was arbitrary or unreasonable, for example, where it applied a law lacking sufficient significant relationship to the dispute. The conformity of the forum to the jurisdictional terms of this Convention does not necessarily, of itself, suffice to establish a significant relationship between its laws and the dispute.

2. Without prejudice to such review as is necessary for the purpose of application of the provisions of this Chapter, there shall be no review of the merits of the judgment rendered by the court of origin.

**Article 26 Documents to be Produced**

1. The party seeking recognition or applying for enforcement shall produce—

a. a complete and certified copy of the judgment;

b. if the judgment was rendered by default, the original or a certified copy of a document establishing that the document which instituted the proceedings or an equivalent document was notified to the defaulting party;

c. all documents required to establish that the judgment is enforceable in the State of origin;

d. if the court addressed so requires, a translation of the documents referred to above, made by a person qualified to do so.

2. No legalization or similar formality may be required.

3. If the terms of the judgment do not permit the court addressed to verify whether the conditions of this Chapter have been complied with, that court may require the production of any other necessary documents.

### **Article 27 Procedure**

The procedure for recognition, declaration of enforceability or registration for enforcement, and the enforcement of the judgment, are governed by the law of the State addressed so far as the Convention does not provide otherwise. The court addressed shall act expeditiously.

### **Article 28 Costs of Proceedings**

No security, bond, or deposit, however described, to guarantee the payment of costs or expenses shall be required by reason only that the applicant is a national of, or has its habitual residence in, another Contracting State.

### **Article 29 Legal Aid**

Natural persons habitually resident in a Contracting State shall be entitled, in proceedings for recognition or enforcement, to legal aid under the same conditions as apply to persons habitually resident in the requested State.

### **Article 30 Damages**

1. In so far as a judgment awards noncompensatory, including exemplary or punitive, damages, it shall be recognized at least to the extent that similar or comparable damages could have been awarded in the State addressed. This rule does not apply to damages that are intended to compensate the plaintiff but without requiring proof of actual damages.

2a. Where the debtor, after proceedings in which the creditor has the opportunity to be heard, satisfies the court addressed that in the circumstances, including those existing in the State of origin,



grossly excessive damages have been awarded, recognition may be limited to a lesser amount.

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

3. In applying paragraphs 1 and 2, the court addressed shall take into account whether and to what extent the damages awarded by the court of origin serve to cover costs and expenses relating to the proceedings, not otherwise covered by statutory provisions relating to the awards of attorneys fees.

### **Article 31 Injunctions**

1. In the ordinary course, injunctive relief is available; nonetheless courts may decline to enjoin activities within their territories if:

- a. health and safety are at issue, or
- b. the judgment conflicts with fundamental cultural policies in the State where enforcement is sought, and
- c. damages would afford an effective remedy for that territory.

2. In no event must a State recognize an award of injunctive relief if such would not be required under the TRIPs Agreement, unless the State addressed would have awarded injunctive relief under the same circumstances. Should the rendering court decline to enter injunctive relief pursuant to this subsection, it must award compensatory damages.

### **Article 32 Severability**

If the judgment contains elements which are severable, one or more of them may be separately recognized, declared enforceable, registered for enforcement, or enforced.

### **Article 33 Authentic Instruments**

1. Each Contracting State may declare that it will enforce, subject to reciprocity, authentic instruments formally drawn up or registered and enforceable in another Contracting State.

2. The authentic instrument must have been authenticated by a public authority or a delegate of a public authority and the authentication must relate to both the signature and the content of the document.

**Article 34 Settlements**

Settlements to which a court has given its authority shall be recognized, declared enforceable or registered for enforcement in the State addressed under the same conditions as judgments falling within the Convention, so far as those conditions apply to settlements.

## COMMENTARY

Among other things, this commentary addresses provisions that tailor the 1999 Draft of the Hague Convention to intellectual property disputes. To the extent the Convention adopts language from the 1999 Hague proposal, the applicable Commentary on those provisions is that of Professor Catherine Kessedjian,<sup>11</sup> and of Peter Nygh and Fausto Pocar.<sup>12</sup>

**Arts. 1 and 2: Substantive and Territorial Scope**

In its substantive and territorial limitations, this Convention differs radically from the 1999 Draft Hague Convention. It does so for reasons set out below. These limitations raise new problems, also discussed below.

**(a) TRIPs Limitation.**

With a few possible exceptions the Convention is limited to disputes over rights covered by the TRIPs Agreement. Furthermore, it is open to signature only by countries that have joined the WTO and are obligated to fully implement the TRIPs Agreement. There are two reasons for these limitations. First, a recurring fear expressed in connection with the draft Hague Convention is that litigants will engage in forum shopping and use the courts of certain states to disrupt the balance that other nations have struck between intellectual property users and owners. Limiting the Convention to TRIPs rights (with the exceptions and additions discussed below) and to TRIPs implementers means that all litigation will be conducted in States that have agreed to enforce the laws that will be at issue, that are amenable to dispute resolution proceedings if they fail to fulfill their obligations fairly and adequately, and that have agreed to assure transparent and efficient judicial process. Second, although dispute resolution under the WTO cannot provide litigants with a substitute for a centralized and authoritative appellate body (such as the US Supreme Court or the European Court of Justice), it can provide institutional mechanisms (such as dispute resolution panels, the Dispute Settlement Board, and the Council for TRIPs) for examining and

11. Catherine Kessedjian, Preliminary Document Nos. 7–10 & 12, at the website of the Hague Conference on Private International Law, <http://www.hcch.net/e/workprog/jdgm.html>.

12. Peter Nygh & Fausto Pocar, Report of the Special Commission on Jurisdiction and Foreign Judgments in Civil and Commercial Matters, at the website of the Hague Conference on Private International Law, <http://www.hcch.net/e/workprog/jdgm.html> (last visited June 1, 2002) [hereinafter Nygh & Pocar Report].

revising the law as it develops in litigation under the Convention. These limitations do, however, raise two important problems.

(1) *Line drawing*. One concern with narrowing the scope of the Convention in this way is that it will require difficult line drawing and lead to satellite litigation over the question whether a judgment is sufficiently related to TRIPs rights to qualify for enforcement. There are several responses. Most important, the TRIPs Agreement is itself quite broad: while it most prominently covers patent, copyright, and trademark rights, it explicitly also applies to geographic indications, industrial designs, layout designs, and undisclosed information (trade secrets).<sup>13</sup> Thus, the vast majority of commercially significant intellectual property cases will be covered. Second, as noted below, other claims—such as claims sounding in unfair competition—can be joined with covered claims under the court’s supplemental authority, see Art. 9. Third, art. 2.1 of the TRIPs Agreement obligates members to comply with arts. 1–12 of the Paris Convention.<sup>14</sup> Art.10<sup>bis</sup> of the Paris Convention covers unfair competition, which is defined quite broadly.<sup>15</sup> Thus, the claims most typically considered part of intellectual property law—claims for passing off, disputes over unregistered trademarks and trade dress, claims akin to dilution, false association, and misrepresentation, claims for trade secret violations and breaches of confidential relationships, and claims of misappropriation—are all directly within the scope of this Convention.

13. TRIPs Agreement, *supra* note 2, arts. 22, 25, 35, 39.

14. See Report of the Appellate Body, United States—Section 211 Omnibus Appropriations Act of 1998, AB-2001-7, WT/DS176/AB/R, pt. XI, ¶ 336 (Jan. 2, 2002) [hereinafter Appellate Body Report in the *Havana Club* case] (holding that the language of art. 2.1 of the TRIPs Agreement incorporates art. 8 of the Paris Convention), available at <http://docsonline.wto.org>.

15. Article 10<sup>bis</sup> indicates that unfair competition comprises “competition contrary to honest practices in industrial or commercial matters.” Paris Convention, *supra* note 6, art. 10<sup>bis</sup>(2). Additionally, art. 10<sup>bis</sup>(3) gives the following specific examples:

1. all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;
2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;
3. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.

Furthermore, “honest practices” takes into account not only the practices existing in the country where protection is sought, but also practices “established in international trade.” G.H.C. BODENHAUSEN, GUIDE TO THE APPLICATION OF THE PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY 144 (1968); see also TRIPs Agreement, *supra* note 2, art. 39 (referring to art.10<sup>bis</sup> of the Paris Convention).

It is nonetheless possible that there will be situations where intellectual property claims are embedded in other disputes. For example, a case involving the sale of the assets of a corporation may raise questions about the value of intellectual property assets. Antitrust cases sometimes also involve claims of patent misuse or invalidity. Employment disputes can include claims about who owns rights to information developed in the course of employment. Determining which of these cases are within the scope of the Convention will not always be easy. However, it is important to recognize that this problem is not uncommon in any litigation system in which there are courts of specialized subject matter jurisdiction. Thus, it is not insuperable. Indeed, ways to solve it have developed.<sup>16</sup>

In the US system, for example, there is substantial jurisprudence on choosing the cases that can be heard in a federal (as opposed to a state) forum and also law on when an appeal from a court of general jurisdiction is sufficiently patent-related to be heard by the Court of Appeals for the Federal Circuit. In general, the allocation of jurisdiction turns on whether the case “arises under” federal (or patent) law.<sup>17</sup> In *American Well Works Co. v. Layne & Bowler Co.*, Justice O.W. Holmes interpreted this language as meaning that “[a] suit arises under the law that creates the cause of action.”<sup>18</sup> However, subsequent courts have regarded that test as overly inclusive. In the intellectual property context, the formulation most often cited is that of Judge Henry Friendly in *T. B. Harms Co. v. Eliscu*:

Mindful of the hazards of formulation in this treacherous area, we think that an action “arises under” the Copyright Act if and only if the complaint is for a remedy expressly granted by the Act, e.g., a suit for infringement or for the statutory royalties for record reproduction, 17 U.S.C. § 101, cf. *Joy Music, Inc. v. Seeco Records, Inc.*, 166 F.Supp. 549 (S.D.N.Y.1958), or asserts a claim requiring construction of the Act, as in *De Sylva [v. Ballentine]*, 351 U.S. 570 (1956)], or, at the very least and perhaps more doubtfully, presents a case where a distinctive policy of the Act requires that federal principles control the disposition of the claim.<sup>19</sup>

As a result of this narrowed conception of “arising under,” the claims in *T.B. Harms*—which concerned ownership of copy-

16. In Europe, these methods are currently evolving. See, e.g., Peter von Rospat, *Part Two: Decisions of German Courts in Patent Infringement Cases with Cross-Border Effect*, 29 IIC 504, 506 (1998).

17. 28 U.S.C. §§ 1295, 1331, 1338 (2001).

18. 241 U.S. 257, 260 (1916).

19. 339 F.2d 823, 828 (2d Cir. 1964), *cert. denied*, 381 U.S. 915 (1965).

rights—were not considered within the subject matter jurisdiction of federal courts. (It is important to note that the Copyright Act in effect at that time did not provide comprehensive treatment of ownership issues).

In addition, the “well-pleaded complaint rule” is used to determine whether a complaint may be heard in a US federal court.<sup>20</sup> Under this rule, counterclaims, cross claims, issues arising in defenses, as well as issues mentioned by the plaintiff but not legally required as part of the complaint, are ignored for determining a trial court’s subject matter jurisdiction.

This is not the approach adopted here. Within specific jurisdictional systems, courts with special subject matter authority tend to work best when they are small enough for judges to stay in close contact and abreast of one another’s decisions. Constraints like those found in US federal law further that goal by limiting dockets while preserving enough cases to give each court sufficient power to influence the development of the law within its authority. But docket-restraint is not an issue here. Indeed, the opposite is the case: since consolidation and enforcement of foreign judgments save judicial resources, the scope of the Convention should be broad.

For US federal trial courts, the well-pleaded complaint rule also performs another function: it allows the allocation issue to be decided at the earliest stage of the pleadings, before significant development and resource expenditures have occurred. Again, this is not a concern here because the parties will presumably want at least part of the case adjudicated in the chosen forum, no matter what the international ramifications of the judgment. Thus, there is no need to limit coverage to the first claims that the plaintiff raises. So long as a case mainly resolves intellectual property issues, it should fall within the Convention, no matter who raised the claim and when in the initial stages it was raised.<sup>21</sup>

20. See, e.g., *Louisville & Nashville R.R. Co. v. Mottley*, 211 U.S. 149 (1908).

21. In *The Holmes Group, Inc. v. Vornado Air Circulation Sys., Inc.*, — U.S. —, 122 S. Ct. 1889, 2002 WL 1155866 (June 3, 2002), the Supreme Court declined to interpret 28 U.S.C. § 1295, which controls the appellate jurisdiction of the United States Court of Appeals for the Federal Circuit, to permit appeal of a patent counterclaim to that court, even though that tribunal was established to centralize patent appeals. However, the Supreme Court’s reasoning is not inconsistent with our approach. The majority posited that a purpose of the well-pleaded complaint rule is to give the plaintiff mastery over the location of the appeal; allowing a counterclaim to control the location of appeal would defeat that purpose. In a concurring opinion, Justice Stevens suggested that directing some patent appeals to other courts would provide an antidote to the institutional bias that may develop in specialized tribunals.

But even if the specific formulas proposed by Judge Friendly or Justice Holmes are not apposite, the general approach they took is. Thus, both essentially looked for an allocation rule that reflects the rationale for drawing lines in the first instance. Friendly, for example, alluded to “a distinctive policy of the Act requires that federal principles control.”<sup>22</sup> In this Convention, the concern is to make sure that the courts where litigation takes place are committed to fair adjudication of intellectual property disputes. The notion, in short, is to confine adjudication to courts whose records are subject to examination by the WTO for bias or partiality. Accordingly, the determination of what is within the scope of the Convention should turn on whether the WTO nexus is of paramount concern to the parties, and whether the outcome of the case would be of evidentiary value in WTO dispute resolution. Under such an approach, a case that is primarily about the sale of a business, or constraints on competition, or termination of employment, are not within the Convention’s scope.<sup>23</sup>

Disputes involving ownership of covered intellectual property rights present a more difficult issue. The proposal for a European Patent Court excludes from jurisdiction claims of ownership and the import of the *T.B. Harms* case was, similarly, to exclude ownership claims from the scope of federal jurisdiction. Moreover, as the recent Appellate Body Report relative to the *Havana Club* case notes, ownership is not directly covered by the TRIPs Agreement.<sup>24</sup> Nonetheless, the efficiency and consistency goals that animate this proposed Convention argue for including ownership disputes within its scope. Some issues of ownership would be included in any event: those that are based directly on intellectual property law provisions,<sup>25</sup> and those that arise in the context of infringement actions.<sup>26</sup> In addition, the same Appellate Body Report found that the US had an obligation under art. 42 of the TRIPs Agreement to permit the assertion of ownership claims under domestic law.<sup>27</sup> Since the WTO dispute resolution framework thus provides assurance of fair and transparent

22. *T.B. Harms*, 339 F.2d at 828.

23. Cf. Commission Proposal for a Council Regulation on the Community Patent, art. 46, 2000 O.J. (C 337) E/278 (stating that employer-employee relationships will fall under the jurisdiction of national courts, not the European Patent Court).

24. Appellate Body Report in the *Havana Club* case, *supra* note 14, ¶¶ 139–148.

25. See, e.g., *N.Y. Times Co. v. Tasini*, 533 U.S. 483 (2001); *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989).

26. See, e.g., *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.*, 145 F.3d 481 (2d Cir. 1998); *Random House, Inc. v. Rosetta Books LLC*, 150 F. Supp. 2d 613 (S.D.N.Y. 2001).

27. Appellate Body Report in the *Havana Club* case, *supra* note 14, ¶ 218.

process, ownership issues, even when presented alone, should be considered within the scope of the Convention.

Presumably, there will often be a point in the litigation when the parties will need to know whether their case will terminate in a judgment entitled to enforcement in all member States. They may only need to learn this at the end, or they may need to think about it at the stage where global claims might be consolidated, or issues of forum selection arise. Because there will be marginal cases where the decision will be difficult (especially in the years before a jurisprudence on the question has developed), Art. 23.1(a) authorizes the court hearing the case to decide whether it comes under the Convention's enforcement provisions, and it gives that court leeway to make this certification as soon as the issue becomes important to one of the parties. The certification procedure will not make drawing the line easier, but it will give parties full notice of the effects of the judgment at the stage at which they are making important strategic choices. Allowing that question to come up in the court rendering the judgment has the additional benefit of allowing this issue to be decided by the court that is best acquainted with the litigation, rather than by a court trying to determine the scope of the judgment for enforcement or *res judicata* purposes.

(2) *Claim splitting.* Another concern is that a Convention primarily limited to TRIPs claims will lead to bifurcation of cases and thus, the expenditure of extra resources, as parties are forced to litigate, or seek enforcement of, the intellectual property portions of their cases in courts identified in this instrument, and to deal with other parts of their cases in other places. Perhaps there will be such situations, but the Convention will certainly avoid more duplicative litigation than it will cause. In addition, Art. 9 of this Convention permits the assertion of "supplemental" non-intellectual property issues that arise out of the transaction or series of transactions or occurrence on which the original claim is based. Thus, for example, a moral rights claim, which would not come within the express terms of the Convention because it is not explicitly mentioned in the TRIPs Agreement or incorporated in it,<sup>28</sup> could be heard if it arose in a transaction or occurrence that also gave rise to a claim within the scope of the Convention.

28. See TRIPs Agreement, *supra* note 2, art. 2.1.



Here again, line drawing may be difficult and similar experiences in national judicial systems may be helpful. In the US federal system, the practice of permitting the assertion of transactionally related claims took hold in *Hurn v. Oursler*,<sup>29</sup> where the plaintiff joined to a claim for copyright infringement, a claim of unfair competition for unauthorized use of the allegedly copyrighted play. Even though the second claim was based on state law, it was adjudicated in federal court, the theory being that these claims were “not separate causes of action, but different grounds asserted in support of the same cause of action.”<sup>30</sup> That idea was expanded in *United Mine Workers of America v. Gibbs* to cover state and federal claims that “derive from a common nucleus of operative fact.”<sup>31</sup> Significantly, the practice was justified by “considerations of judicial economy, convenience and fairness to litigants”—in other words, by the same concerns that animate this Convention.<sup>32</sup>

The *Gibbs* “common nucleus of operative fact” test was designed to define when a case is within the constitutional authority of federal courts. Constitutional authority is not a consideration here, however, as the court’s subject matter power over the dispute comes strictly from national law. The role of Art. 9 is to determine when the judgment is entitled to enforcement and for that function, the “transaction or series of transactions or occurrence on which the original claim is based” language is easier to apply since it is used in other contexts. Furthermore, it is similar to the Brussels Convention’s “arising from the same contract or facts on which the original claim was based.”<sup>33</sup>

Art. 9 gives courts discretion to dismiss supplemental claims when they substantially predominate over intellectual property claims. This procedure is derived from US federal jurisdiction law.<sup>34</sup> It prevents a party from gaining the benefits of the Convention by characterizing a case as within its subject matter scope, even though the case has little connection to intellectual property rights.<sup>35</sup>

29. 289 U.S. 238 (1933).

30. *Id.* at 247.

31. 383 U.S. 715, 725 (1966).

32. *Id.* at 726; *see also* *Nilssen v. Motorola, Inc.*, 255 F.3d 410, 414 (7th Cir. 2001) (holding that a trade secret claim should be considered supplemental to a patent claim to avoid wasting judicial resources and the potential for inconsistent outcomes).

33. *See* Brussels Convention, *supra* note 7, art. 6(3) (in both the current versions and the revised version).

34. 28 U.S.C. § 1367 (2001).

35. *But see* *Breed v. Hughes Aircraft Co.*, 253 F.3d 1173, 1178 (9th Cir. 2001) (holding—in a case that involved thirteen state claims and one claim to correct inventorship on a patent—that any question of patent law brings an appeal before the Federal Circuit, no matter

Once again, the unavoidable ambiguity in the terminology is ameliorated by having the court hearing the case certify whether it comes within the Convention at the first stage at which the issue becomes important.

(b) Exceptions.

There are three exceptions to the general rule that the Convention covers TRIPs rights: patents, which are excluded; and rights of communication to the public in sound recordings, rights covered only in the Paris Convention, and domain names, which are included.

(1) *Patents.* Patents are explicitly a part of the TRIPs Agreement. The initial determination was to include them here, and to do so even though the drafters of the Hague Convention were told that registered rights—particularly patent—cases posed special problems. Initially, these peculiarities did not appear insurmountable. The main objections to covering registered rights were first, that registering and maintaining registration are “acts of state” and foreign courts should not upset another State’s official acts; second, that the social costs of patenting are so high (particularly for pharmaceuticals) that some fora might become “information havens,” over-eager to invalidate patents on a worldwide basis; third, that both validity and infringement issues are too technical to be decided by courts of general jurisdiction; and fourth, that differing discovery opportunities could lead to important differences in outcome, particularly on issues, like priority of invention, that are unique to the law of the US, where broad discovery is available.

The first issue, act of state, is probably a red herring: if a State signs onto the Convention, the State is agreeing to permit foreign courts to examine its Acts. The “information haven” concern is, as noted, substantially alleviated by restricting the Convention to TRIPs implementers. In addition, limitations on the use of declaratory judgment actions (Art. 8), their significance for choice-of-court purposes (Art. 12.5(a)), and the power given courts through the consolidation provision (Art. 13) should reduce concerns about forum manipulation. The technical incompetence issue might be addressed by limiting the consolidation of foreign patent actions to those States that have specialized technically competent jurisdictions, like the US Court of Appeals for the Federal Circuit, and similar courts in other jurisdictions (Art. 14). Discovery problems could be dealt with by

how insubstantial the patent issue is relative to the rest of the case).

making the prejudicial absence of adequate discovery a ground for refusing enforcement and recognition (Art. 25). The draft has written brackets references to these alternatives for patent actions.

Further deliberation, however, made it seem unwise to ignore the objections of the patent bar. The patent laws of the TRIPs States represent a greater range of substantive differences than do their copyright or trademark laws. As a result, the technical difficulties in these cases would be extremely challenging even for judges familiar with local patent law. Resources are not saved by making a consolidated case so complex, it can be decided only with difficulty and with an increase in the risk of inaccuracy. Further, practitioners note that there are places where validity can only be adjudicated in an expert agency. It would be paradoxical to permit foreign courts to entertain cases that could not be heard in the local courts of the country where the right in question was registered. The costs of including patents in the Convention are, in other words, very high.

At the same time, the benefits are low—or, lower than in copyright and trademark cases. Patent rights are more territorially grounded than other intellectual property subject matter. Moreover, patented products continue to be distributed mainly by physical means: apart from software and business methods, patent infringements seem unlikely to occur by means of the Internet. So long as state-by-state adjudication of rights remains viable, and the costs attached to international enforcement appear high, it makes little sense to treat patents the same as other intellectual property rights.

Some practitioners were also dissatisfied with the concept of making patent actions exclusive to the forum where the patent right was registered, as per the proposed Hague Convention.<sup>36</sup> Their concern is that this would freeze the law and prevent the development of methods for efficient adjudication of worldwide patent actions. Given the need for foreign enforcement that will arise in connection with patented products that can be distributed on the Internet, simply excluding patents from the scope of the Convention seems the wiser course. Exclusion does not oblige consolidation or enforcement, but it does not prevent these practices either.

(2) *Sound recordings*. The first proposed addition to the scope of the Convention is to broaden the scope of protection for sound recordings. These are not covered by the Berne Convention as it is

36. See 1999 Draft Hague Convention, *supra* note 1, art. 12(4).

incorporated in the TRIPs Agreement, and the express provisions of TRIPs extend only to reproduction and rental rights.<sup>37</sup> At the same time, however, there appears to be international consensus that sound recordings should be protected, in at least some circumstances, against unauthorized communication to the public.<sup>38</sup>

It remains to be seen whether the TRIPs Agreement comes to incorporate other intellectual property instruments, either directly or through recognition of the norms embodied in them.<sup>39</sup> However, the values represented by the Conventions regarding the scope of protection for sound recordings are so close to the principles recognized in the TRIPs Agreement, it is difficult to believe that a State that fully abides by its TRIPs obligations would not fairly adjudicate communication to the public claims over sound recordings. Including disputes regarding copyright and neighboring rights in communications to the public of sound recordings within the scope of this Convention has the benefit of preventing the bifurcation of cases involving claims to both the material on a sound recording and the recording itself, or the bifurcation of cases involving reproduction and performance rights in sound recordings.

(3) *Domain names.* Domain names are not yet clearly fully protected by the TRIPs Agreement. However, the cases involving domain names are based mainly on laws explicitly governed by the TRIPs Agreement (for example, claims of consumer confusion, misrepresentation, dilution, or false association), or on laws with similar concepts (for example, cyberpiracy laws). Because of the strong tie between TRIPs commitments and the values embodied in domain-name law, the WTO nexus is a significant check on the way courts handle these suits. And because these cases have the same efficiency and inconsistency problems that arise in international trademark and copyright disputes, it was thought that they could usefully be included in this Convention.

37. TRIPs Agreement, *supra* note 2, art. 14.

38. See WIPO Performances and Phonograms Treaty, *supra* note 5; European Parliament & Council Directive 2001/29/EC of 22 May 2001 on the Harmonisation of Certain Aspects of Copyright and Related Rights in the Information Society, arts. 2(c), 3.2(b), 2001 O.J. (L 167) 10; see also the 1995 and 1998 amendments to the U.S. Copyright Act, 17 U.S.C. § 114 (1996 & Supp. 2000).

39. See, e.g., Graeme B. Dinwoodie, *The Development and Incorporation of International Norms in the Formation of Copyright Law*, 62 OHIO ST. L.J. 733 (2001); Neil W. Netanel, *The Next Round: The Impact of the WIPO Copyright Treaty on TRIPs Dispute Settlement*, 37 VA. J. INT'L L. 441 (1997).

One objection to treating domain names under the Convention is that they can be conceptualized as equivalent to titles to land, with the result that claims over ownership are truly local actions reserved to the courts of the place where the domain name is registered. The impetus for this conceptualization comes from a provision of US cyberpiracy law, which permits the owner of a trademark to file an in rem action against a domain name in the judicial district “in which the domain name registrar, domain name registry, or other domain name authority . . . is located.”<sup>40</sup> For example, in *Heathmount A.E. Corp. v. Technodome.com*, a Canadian trademark holder sued another Canadian over ownership of a domain name in the Eastern District of Virginia.<sup>41</sup> Apparently, the notion was that the domain name was reified at the place of registry, making the location of the registry the place where the conflict had to be resolved. But even though the *Heathmount* court found it had in rem jurisdiction—that is, even though a domain name *can* be reified in this way—there is nothing that says it *must* be reified at all. In fact, the Cyberpiracy Prevention Act treats in rem jurisdiction as an adjudicatory basis of last resort. It provides that an in rem action is appropriate only if in personam jurisdiction over the alleged owner cannot be obtained.<sup>42</sup> There is, in short, little reason to focus any more on the “property” dimension of domain names than on the property dimension of other intellectual property rights. The Convention takes the position that intellectual property disputes are transitory and that an action can be brought where there is adjudicatory authority over the defendant.

(c) Arbitral Agreements and Awards and the New York Convention Limitation

This Convention also requires membership in the New York Convention. In order to avoid the creation of conflicting rules on enforcement of arbitral awards, this instrument leaves all such issues to the New York Convention.

If domain names are included in this Convention, then reference should arguably be made to the ICANN dispute resolution system.<sup>43</sup>

40. Lanham Trade-Mark Act, § 43(d)(2)(A), 15 U.S.C. § 1125(d)(2)(A) (1998 & Supp. 2001).

41. 106 F. Supp. 2d 860, 868 (E.D. Va. 2000).

42. See 15 U.S.C. § 1125(d)(2)(A)(ii)(I).

43. See ICANN Uniform Domain-Name Dispute-Resolution Policy, at <http://www.icann.org>.

This system is, however, nonbinding.<sup>44</sup> Accordingly, there is nothing in that procedure that affects litigation under this Convention.

### **Art. 3: Defendant's Forum**

This article is carried over from art. 3 of the 1999 Hague Draft. The comments of Nygh and Pocar are fully applicable.

Consideration was given to add, as another definition for habitual residence, "where the defendant has an effective business establishment, when that State is also the State of plaintiff's habitual residence." This definition would have attempted a compromise between traditional concepts of habitual residence, and the US "doing business" basis of general jurisdiction. ("Doing business" as applied by US courts, is a prohibited ground of jurisdiction under this draft Convention, see Art. 16.1(f).) However, the additional definition (in effect, "doing business, plus") was not considered necessary in light of Art. 6.2, which recognizes a broad geographic scope of jurisdiction when the forum is plaintiff's residence, and when the infringing acts were intentionally directed toward the forum.<sup>45</sup>

### **Art. 4: Agreements Pertaining to Choice of Court**

Like art. 4 of the 1999 Hague Draft, this provision permits the parties to select a forum for dispute resolution. The chosen court must be one that has subject matter jurisdiction under local law. Unless otherwise specified, choice of court clauses will be read as creating exclusive jurisdiction, in derogation of the power otherwise vested in other courts by this Convention. The court chosen may not decline jurisdiction under Art. 13 (except as required by this Article). If the case is consolidated under Art. 14, then the court chosen by the parties should hear the consolidated case if it has subject matter jurisdiction to do so. If it does not, then it should weigh the advantages of honoring the parties' choice against the efficiencies to be obtained through consolidation elsewhere.

This provision adds a feature to the 1999 Hague Draft in that it handles unilateral forum designations in a new way. In the 1999 Draft of the Hague Convention, forum selection clauses are generally enforceable.<sup>46</sup> However, the effect of this provision was limited by other articles. For example, while consumers are permitted to rely on these agreements, a seller-imposed choice of forum clause is recog-

44. *Id.* ¶ 4(k).

45. See discussion of Art. 6, *infra*.

46. 1999 Draft Hague Convention, *supra* note 1, art. 4.

nized only if the agreement was entered into after the dispute arose.<sup>47</sup> In addition, a court was prohibited from exercising jurisdiction based solely on “the unilateral designation of the forum by the plaintiff.”<sup>48</sup>

The revised Hague Draft suggests some changes will be made in this scheme.<sup>49</sup> The prohibition on unilateral designations by plaintiffs is eliminated and instead, the principal version of art. 4 now provides: “Whether such an agreement is invalid for lack of consent (for example, due to fraud or duress) or incapacity shall depend on national law including its rules of private international law.”

A footnote elaborates:

This proposal seeks to confirm that the substantive validity of the choice of forum agreement is governed by the national law of the forum seised, including its choice of law rules. It also seeks to confine substantive validity to questions affecting the consent or capacity of the parties as opposed to questions of reasonableness and public policy.<sup>50</sup>

The revised draft continues to treat consumer contracts separately.<sup>51</sup> However, the new provision includes several alternative proposals on choice of forum clauses. In general, agreements arising after the dispute will be enforced, but there is now some flexibility to enforce other agreements as well, so long as they conform to art. 4. In some variations, the agreement must also be binding on both parties in the place where the consumer was habitually resident at the time the agreement was entered into. There is also a proposal to give each member State leeway to enter a declaration on when it will enforce the judgment of a court whose jurisdiction is solely based on a designation in a consumer contract.

All of these proposals were rejected here. As was recognized in the process of drafting the Uniform Computer Information Transactions Act (“UCITA”), “prepackaged” contracts are important to a variety of intellectual property transactions, particularly those involving software. Licensing is critical to efficient exploitation of intellectual works. So-called “shrinkwrap” or “click on” agreements allow products to be tailored and priced for the needs of particular

47. *Id.* art. 7.

48. *Id.* art. 18(2)(g).

49. See Hague Conference on Private International Law, Summary of the Outcome of the Discussion in Commission II of the First Part of the Diplomatic Conference 6–20 June 2001, Interim Text [hereinafter Revised Hague Draft], at [ftp://hch.net/doc/jdgm2001draft\\_e.doc](ftp://hch.net/doc/jdgm2001draft_e.doc), reprinted in this issue at 77 CHI.-KENT L. REV. 1015 (2002).

50. *Id.* art. 4 n.24. There are, however, variants to art. 4.

51. *Id.* art. 7.

consumers; they facilitate online ordering and retail selling; they lower the cost of doing business and hence, the price of products.<sup>52</sup> As a result, generic prohibitions, such as the one found in the 1999 Hague Draft Convention,<sup>53</sup> are not desirable. Nor is it appropriate to rely on the domestic contract law of member States, as in more recent drafts. Because forum selection is not a matter covered by the TRIPS Agreement, there could be wide variation among member States on enforceability. As a result, relying on local law will make it difficult to predict the effect of a unilaterally imposed term, and this unpredictability will, in turn, affect the ability of sellers to accurately price their products. There are other undesirable consequences as well. Use of the law of the forum first seized to determine enforceability will surely lead plaintiffs to shop for a forum where the scrutiny of such contracts is minimal. Relying on the law of the place where the consumer is located is also unhelpful: many of these contracts arise online, making the consumer's location difficult to determine. Besides, consumer forum shopping (through, for example, use of a foreign service provider for making purchases) is no more desirable than seller forum shopping.

Finally, to the extent special treatment for certain classes of transactions is needed, it is not appropriately confined to consumers. While it is true that consumers may require safeguards, the technical nature of certain forms of intellectual products (like software) means that there are buyers who are not ordinarily considered consumers, who nonetheless need marketplace protection.<sup>54</sup>

This Convention therefore takes a different tack. First, it defines a class of "nonnegotiated contracts," which are subject to special scrutiny regardless of whether they are entered into by consumers or by businesses. These are contracts arising in transactions for information products where the terms are entirely pre-packaged. Since the seller is not willing to tailor these agreements to the needs of end-users, it is these contracts that, in the intellectual property industries, present the need for special safeguards. Thus, there is no separate provision for consumers.<sup>55</sup>

52. UNIF. COMPUTER INFO. TRANSACTIONS ACT, prefatory note (2000), available at <http://www.law.upenn.edu/bll/ulc/ucita/ucita1200.htm> [hereinafter UCITA]; see also *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1449 (7th Cir.1996).

53. 1999 Draft Hague Convention, *supra* note 1, art. 18.

54. See UCITA § 102 cmt. 39.

55. For other consumer protections, see Art. 7.2, *supra*, and comment to Art. 7, *infra*.



Second, this Convention creates its own law for determining when a forum designation will be honored: the forum must be a reasonable choice, in light of the criteria set out in subsection 3. Imposing a uniform rule on all forum selection clauses should largely eliminate the possibility that plaintiffs will shop for courts lenient on adhesion contracts. A uniform law also makes it unnecessary to know where the consumer consummated the deal. Most important, the listed criteria should influence party behavior and the substance of the contracts terms offered. Because one of the criteria looks to whether the forum would have been appropriate in the absence of a forum-selection clause, those who want to be sure their forum selection will be honored will presumably choose a forum that is convenient to the other side and connected to the dispute.<sup>56</sup>

The guidelines of subsection 3 largely echo the concerns animating Art. 13 on consolidation and Art. 14 on circumstances for declining jurisdiction. In all three areas, the idea is to choose a court that is fair to all sides, in light of their resources and their capacity to cope with travel and foreign language and procedure. In addition, all of these sections are designed to channel cases to the forum most suited to deciding the substantive issues arising in the dispute: a court whose law is likely to apply to a substantial part of the litigation, and—in the case of trademark [and patent] rights—the court best positioned to deal with questions involving registration and the consequences of an invalidity finding. Because many nonnegotiated contracts arise through online sales, the parties are uniquely likely to have some facility with the Internet. As a result, the availability of online dispute resolution was added as a criterion that the court should consider in deciding whether the forum choice should be honored.

56. Cf. Joined Cases C-240/98 to C-244/98, *Océano Grupo Editorial SA v. Rocío Murciano Quintero* 2000 E.C.R. I-4941, ¶ 24, available at <http://curia.eu.int/common/reccdoc/indexaz/en/c2.htm>. In *Océano Grupo*, the European Court of Justice held that

where a jurisdiction clause is included, without being individually negotiated, in a contract between a consumer and a seller or supplier within the meaning of [Council Directive 93/13/EEC of 5 April 1993] and where it confers exclusive jurisdiction on a court in the territorial jurisdiction of which the seller or supplier has his principal place of business, it must be regarded as unfair within the meaning of Article 3 of the Directive in so far as it causes, contrary to the requirement of good faith, a significant imbalance in the parties' rights and obligations arising under the contract, to the detriment of the consumer.

*Id.* The European Court of Justice went on to hold that the court first seized must determine this issue of its own motion. *Id.* ¶ 26.

### Art. 5 Appearance by Defendant

Making appearance a basis of jurisdiction raises three enforcement questions: what is the effect of a judgment rendered in the case of an appearance in which the defendant does not challenge jurisdiction; what is the effect if the defendant challenges jurisdiction; and what is the effect of a judgment when the defendant defaults. This provision must be read in conjunction with Arts. 17 and 21, which also cover obligations regarding appearances and nonappearances.

1. Appearance without contesting jurisdiction. This provision states the familiar rule that a party can waive objections to personal jurisdiction.<sup>57</sup> This is true of both domestic personal jurisdiction rules and of the limitations on personal jurisdiction imposed by this Convention. Thus, under Art. 5, subsections 1 and 2, a party is deemed to submit to the court's authority if the party joins issue without contesting jurisdiction. Issue is joined when a defense on the merits is filed. If the other conditions of the Convention are met, the judgment is entitled to enforcement.

In general, Art. 21 gives the court where enforcement is sought authority to verify the basis of the rendering court's authority. In the 1999 Hague Draft, art. 27 (which is the provision analogous to this one) is unclear on the scope of this authority in the context of appearances. Under one reading, it seems that the enforcement court must satisfy itself that the defendant was subject to the court of origin's authority under one of the *other* bases of jurisdiction listed in the convention. In other words, it is not enough that defendant join issue; the court of origin must have also enjoyed a "white listed" basis of adjudicatory authority. However, in combination with the Hague Draft's provision on appearance jurisdiction,<sup>58</sup> it can instead be argued that appearances are on the "white list" of agreed bases of jurisdiction. This Convention is more explicit. It clearly rejects the first approach of requiring an independent basis of authority. Giving the defendant a chance to prevail on the merits, but to protest jurisdiction in the case of a loss encourages sharp practice, prolongs proceedings (itself a major problem in cases involving the use of information), and multiplies cost to the other side. The ability to undermine a judgment after it has been entered is particularly problematic in consolidated

57. This is in contrast to subject matter limitations: because these cannot be waived, Art. 4 recognizes forum selection clauses only when the designated court has adjudicatory authority to hear the subject matter of the dispute.

58. 1999 Draft Hague Convention, *supra* note 1, art. 5.

adjudication, where considerable resources will have been devoted to the case by the parties as well as by the judicial system. Accordingly, if the defendant elects to defend, the jurisdictional basis of the rendering court is not reconsidered: as under the second interpretation of the Hague Draft, the appearance itself is a basis of jurisdiction. Art. 21.1 does, however, expressly provide that the obligations of the enforcing court are not diminished. It must verify that the defendant did, indeed, choose to defend on the merits without protest.<sup>59</sup>

2. Appearance contesting jurisdiction. The draft Hague Convention is based on the assumption that defendants can contest jurisdiction.<sup>60</sup> In most jurisdictions a defendant may simultaneously contest jurisdiction and defend on the merits. In many places, the defendant may even appeal an adverse jurisdictional finding at the same time as the merits are appealed.

If the defendant wins the challenge to jurisdiction, there is no problem: no judgment will be entered (or, if one was, it will be vacated). However, a difficult question arises when the defendant contested jurisdiction and lost. At that point, the case will be tried and both the judicial system and the parties will expend resources on it. Thus, there is strong temptation to regard both the merits and the jurisdiction issue as *res judicata*. A prohibition on collateral attack in the enforcement court also encourages the parties to fully utilize the appellate system within the jurisdiction of origin and promotes voluntary compliance with the judgment.

Nonetheless, both Hague drafts give the court where enforcement is sought the power to reconsider the jurisdiction issue.<sup>61</sup> However, the court is bound by the factual determinations of the court of origin. Because proper jurisdiction is so critical to the fairness and public acceptance of the entire international enforcement effort, the utmost should be done to make sure that contested jurisdiction decisions are rightly decided. Reexamination by a second court furthers the interest in accuracy. It promotes careful procedures and reasoned decisions by the court of origin (which has an incentive to protect the

59. For a similar position, see Revised Hague Draft, *supra* note 49, art. 27A.

60. See Nygh & Pocar Report, *supra* note 12, at 47 ("Paragraph 2 [of art. 5] gives the defendant the right to contest jurisdiction. Although the Convention does not seek to regulate procedure, a legal system that did not recognise that right would be in conflict with the Convention.").

61. 1999 Draft Hague Convention, *supra* note 1, art. 27; Revised Hague Draft, *supra* note 49, art 27; see also PROPOSED FOREIGN JUDGMENTS RECOGNITION AND ENFORCEMENT ACT § 5 (2002).

enforceability of its judgments). Finally, dual examination could promote a dialogue among courts and thus more rapid development of legal precedents in the jurisdiction area—a matter of considerable importance in the early years of the Convention. Hague's restriction on reexamining factual predicates represents an attempt to strike a balance between the interest in finality and the interest in accuracy. This Convention softens that restriction by making factual findings presumptively correct. Some of the issues involved in jurisdiction are mixed questions of law and fact; by making this a presumption, the Convention enables the court addressed to reach these questions more easily.

3. Default. Courts must have the power to enter default judgments; to do otherwise would encourage nonappearance and deprive plaintiffs of the opportunity to resolve their disputes. Thus, Art. 5 permits the court to enter judgment despite nonappearance. However, it is not appropriate for a court that lacks adjudicatory authority to decide a case. Several safeguards are therefore supplied. In places where jurisdiction can be examined *sua sponte*, Art. 5 directs the court to independently scrutinize the plaintiff's assertions. Art. 17 gives the court further power to assure itself that its authority is not predicated on a prohibited basis of jurisdiction when the plaintiff so requests or national law so requires. Finally, Art. 21 gives the court where enforcement is sought considerable authority to reexamine the jurisdictional basis used by the court of origin: it must satisfy itself that the plaintiff's assertions about jurisdiction are well-founded (subsection 3) and in making that determination, it is not bound in any way by the original court's factual findings (subsection 2).

Nothing in this Convention (or, for that matter, in the Hague drafts) explicitly requires either court to scrutinize the merits of the plaintiff's case before entering or enforcing a default judgment. Of course, in many places, judgment for plaintiff may not be rendered until there is such scrutiny.<sup>62</sup> Some jurisdictions also have rules that permit defendants to set the default aside and take new evidence.<sup>63</sup> Because the resolution of intellectual property disputes can have im-

62. See, e.g., FED. R. CIV. P. 55(b)(2) (permitting hearings in cases where the plaintiff has not asked for a sum certain).

63. See, e.g., FED. R. CIV. P. 55(c), 60(b); see also 1 CODE OF CIVIL PROCEDURE RULES OF THE FEDERAL REPUBLIC OF GERMANY OF JANUARY 30, 1877, AND THE INTRODUCTORY ACT FOR THE CODE OF CIVIL PROCEDURE RULES OF JANUARY 30, 1877 AS OF JANUARY 1988, §§ 330–47 (Simon L. Goren, trans., Fred B. Rothman & Co. 1990); Alphonse Kohl, *Romanist Legal Systems*, in 16 INTERNATIONAL ENCYCLOPEDIA OF COMPARATIVE LAW, ch. 6, at 83 (Mauro Cappelletti ed., 1984) (describing Dutch procedure).

portant public consequences (for example, the publication of material of great interest may be enjoined), there are strong arguments for requiring the court of origin to look at the merits before entering a default judgment and for imposing a duty on the enforcement court to make sure this was done. But there are problems with that position. It may impose new procedures on member States; it encourages defendants to bypass the court of origin; and it opens the door to re-litigation and to the examination by one court of another's procedure.<sup>64</sup> Besides, there are other safeguards in place to protect defaulting defendants: Art. 18(1) requires the court of origin to determine whether the defendant received sufficient notice to mount a competent defense; Art. 26.1(b) requires the enforcing party to produce documentary evidence of notice; and Art. 25.1(c) gives the enforcement court plenary authority to deny enforcement if its independent examination of the notice issue (both facts and law) indicate that the defendant was not properly notified. Thus, it is only knowing, voluntary default judgments that will be entered or enforced. Art. 25 also protects the defendant and the public interest by providing grounds for nonenforcement in cases where the plaintiff engaged in fraud or the judgment conflicts strongly with public policy.

#### **Art. 6: Infringement Actions**

This provision seeks to adapt the traditional fora for tort claims (place of impact of the injury, place from which the harmful conduct originated) to the digital environment. On the one hand, it enlarges the scope of the forum's competence in the case of multiterritorial infringements. On the other, it limits competence when the defendant has endeavored to avoid acting in a particular territory. Similarly, it would insulate Internet access providers from amenability to suit in fora for which the provider's sole contact is the automatic and unmediated transmission of communications initiated by and destined for others.

Art. 6.1(a), designating the competence of "any State where the defendant substantially acted (including preparatory acts) in furtherance of the alleged infringement," recognizes that an infringement may originate in States other than the one in which the defendant resides or has its principal place of business. For example, defendant may reside in State A, but make the alleged infringement available to the public through a website located in State B. When jurisdiction is

64. Cf. *Soc'y of Lloyd's v. Ashenden*, 233 F.3d 473, 477 (7th Cir. 2000).

asserted on this basis, the forum is competent to hear all infringement claims arising out of the communication of the infringement from the forum, whatever the territorial extent of the resulting infringements.

Art. 6.1, inspired by art. 10 of the 1999 draft Hague Convention, adjusts to the intellectual property context that draft's innovation, which makes general territorial competence in certain tort actions turn on whether the forum is the plaintiff's residence.<sup>65</sup> Under the approach suggested here, any State to which the alleged infringement was intentionally directed, will be competent to adjudicate not only claims arising from forum impact, but also from impacts in other jurisdictions, subsections 6.1(b), 6.2. "[I]ntentionally directed, including those States for which defendant took no reasonable steps to avoid acting in or directing activity to that State" means that the defendant sought to communicate the allegedly infringing content to that State, or at least did not turn away customers who responded to the availability of the communication in that State. This provision also seeks to cover situations in which the initiator of the communication has located its principal place of business and/or the means of communication in the intellectual property equivalent of a "tax haven," that is, a country known or expected to be particularly forgiving of the defendant's activities. The relative paucity of a domestic market for goods or services provided by the defendant, compared with the market in countries to which the communication was intentionally directed may suggest that defendant has localized its business with an eye to forum manipulation.

Art. 6.1(c) applies the traditional rule of competence of the place of the impact. When this forum is not the plaintiff's residence, that forum's competence is limited to adjudicating claims arising out of infringements occurring within its territory, see Art. 6.3. A further limiting principle is provided by specifying that this forum will not be competent if the "defendant took reasonable steps to avoid acting in or directing activity to that State." That language refers to efforts to screen out access from particular jurisdictions, for example, by requiring users to identify their country of residence, and excluding users from countries to which the defendant does not wish to communicate.<sup>66</sup> Technological measures that make it possible to limit

65. 1999 Draft Hague Convention, *supra* note 1, art. 10(4).

66. Cf. Torsten Bettinger & Dorothee Thum, *Territorial Trademark Rights in the Global Village—International Jurisdiction, Choice of Law and Substantive Law for Trademark Disputes on the Internet—Part Two*, 31 IIC 285 (2000). The current draft revision of the Brussels Convention also employs the "directed to" concept to identify competent fora of impact of the

internet communications to particular countries may well be on the horizon.<sup>67</sup>

It could be argued that these provisions violate US due process norms, as articulated by the Supreme Court. For example, under *World-Wide Volkswagen Corp. v. Woodson*,<sup>68</sup> the combination of place of impact and foreseeability of remote harm did not fulfill due process standards. In contrast, however, Art. 6 aims specifically at the activities of the defendant, not the “unilateral activity of those who claim some relationship with a nonresident defendant.”<sup>69</sup> Recall that, in fact, the *World-Wide Volkswagen* Court specifically acknowledged that the manufacturer was amenable to suit in the forum; unlike the local car dealership, the manufacturer sought to “serve, directly or indirectly, the market for its product in other States.”<sup>70</sup> Similarly, the person who intentionally directs an Internet transmission to foreign jurisdictions, without “taking reasonable steps to avoid acting in or directing activity to that State,” can be deemed to be serving foreign markets. As it becomes increasingly easy to segment the Internet,<sup>71</sup> it becomes ever more reasonable to subject to jurisdiction a defendant who does not avail itself of opportunities to filter out unwanted countries of receipt.<sup>72</sup> Moreover, there is reason to believe that a concern animating the *World-Wide Volkswagen* court was the fear that the law of a remote jurisdiction might wrongly be applied to the transaction.<sup>73</sup> This proposal addresses the problem of inappropriate choice of law in Art. 25, on enforcement of judgments.

Art. 6.4 attempts to address the concerns raised by Internet service providers regarding the proposed Hague Convention. These entities fear that the criteria enunciated in Hague’s art. 10 could render them amenable to suit in any country through which a wrongful communication transits or is received—effectively, the whole world.

alleged wrongful act.

67. See Michael A. Geist, *Is There a There There?: Toward Greater Certainty for Internet Jurisdiction*, 16 BERKELEY TECH. L.J. 1, available at [http://www.law.berkeley.edu/journals/btlj/articles/16\\_3/geist/geist.pdf](http://www.law.berkeley.edu/journals/btlj/articles/16_3/geist/geist.pdf).

68. 444 U.S. 286, 295–96 (1980).

69. *Id.* at 298 (quoting *Hanson v. Denckla*, 357 U.S. 235, 253 (1958)).

70. *Id.* at 297.

71. See, e.g., Michael Geist, *E-Borders Loom, for Better or Worse*, Globetechnology.com [hereinafter Geist, *E-Borders*], at <http://news.globetechnology.com> (June 28, 2001); Jack Goldsmith, *Against Cyberanarchy*, 65 U. CHI. L. REV. 1199, 1213–16 (1998).

72. See, e.g., *Asahi Metal Indus. Co. v. Superior Court*, 480 U.S. 102, 114 (1987) (looking at considerations of reasonableness to determine the assertion of jurisdiction in international stream of commerce cases).

73. See *World-Wide Volkswagen*, 444 U.S. at 297; see also *Asahi*, 480 U.S. at 115.

Here, the criteria of Art. 6.1 should shield service providers, as these criteria include an element of intent which a passive service provider would lack. Art. 6.1(c) might at first appear more troublesome, as receipt in or transit through any jurisdiction is at least foreseeable, but the passive service provider generally is not in a position to “avoid acting in or directing activity to that State.” For that reason, however, Art. 6.1(c) can be read as applying by its terms only to actors who, by virtue of their closer relationship to the communication, can effectively take steps to avoid certain States.

Nonetheless, in order to clarify that a service provider should not be amenable to suit in a given State on the sole basis of its passive provision of connections, the language of the Online Service Provider Liability Limitation Act,<sup>74</sup> excluding the substantive liability of mere conduit service providers for copyright infringement, has been adopted. Similar language appears in the 2000 European Union E-Commerce Directive, with respect to substantive liability in tort generally.<sup>75</sup>

A question remains whether a similar exclusion should be afforded other service providers, for example, proxy caches, and search engines. Because the role of these actors is less passive, and because they may be better situated to screen out certain fora, such a broad exclusion may not be necessary.<sup>76</sup>

### **Art. 7: Agreements Pertaining to Intellectual Property Rights**

Jurisdiction based on contractual activity has long been controversial. There is considerable disagreement over the sorts of events that trigger contacts with the forum sufficient to support jurisdiction.<sup>77</sup> In many situations, it may even be difficult to determine where critical events took place. In online transactions, for example, a buyer may enter a site through a foreign Internet service provider; to

74. 17 U.S.C. § 512(a) (Supp. 2001).

75. European Parliament & Council Directive 2000/31/EC of 8 June 2000 on Certain Legal Aspects of Information Society Services, in Particular Electronic Commerce, in the Internal Market (Directive on electronic commerce), art. 12, 2000 O.J. (L 178) 1, 12; *see also* Soc’y of Composers, Authors & Music Publishers of Can. v. Can. Ass’n of Internet Providers, [2002] F.C.A. 166, ¶¶ 134, 186 (solving the ISP liability problem by separating substantive and jurisdictional issues and holding that copyright royalties should be imposed on cache operators, but not on other Internet providers; limiting jurisdiction to those servers having a “real and substantial connection to Canada”).

76. *See, e.g.*, T.G.I. Paris, Nov. 20, 2000, Order No. RG:00/05308 (crediting expert reports that Yahoo! Inc.—the US entity—could have taken steps to prevent or discourage French web users from accessing Nazi sites through Yahoo!).

77. *See, e.g.*, *Helicopteros Nacionales de Colombia, S.A. v. Hall*, 466 U.S. 408 (1984) (discussing place of signing, place of negotiation, and use of bank accounts).



the seller, the transaction may then appear to be with a person at the location of the ISP. Normatively, the voluntariness of one party's affiliation with the jurisdiction of the other side can depend on their relative power, the structure of the market in which they are operating, and—for some information products—issues such as network effects, lock in, and compatibility. Thus, general rules based solely on buying and selling activities are unlikely to work well. The Nygh & Pocar Report on art. 6 of the 1999 Hague Draft raises other issues,<sup>78</sup> and the difficulty of this problem is also reflected in the many alternative proposals being considered in the process of revising the Hague Draft.

This Convention takes a somewhat different approach. Rather than start with an examination of specific activities, it looks at whether the complaint raises contract issues. If it does, then it deems the jurisdiction whose rights are in issue an appropriate place for the litigation. Thus, if the contract dispute concerns the right to reproduce a book in France, it is French copyright rights that are at stake, and France is therefore considered a jurisdiction where the case can be adjudicated. While it is true that the defendant may not have been physically present in France, the benefits gained from the protection of French copyright law should be enough to support the specific jurisdiction that Art. 7.1 envisions. And since French law is likely to play a role in deciding the case, this provision also has the advantage of channeling litigation to the court with some (perhaps the most) expertise in resolving the dispute. Another key benefit of this approach is that in the typical consumer case, this provision will steer the adjudication to an acceptable location: the place where the work is used, which is to say, a place where the consumer is located. Consumers are further protected by Art. 7.2, which imposes an overriding test of reasonableness in the case of nonnegotiated contracts.

Some contracts encompass rights under more than one country's law. In conformity with the general policy favoring consolidation which underlies this Convention, that possibility is dealt with in Art. 14, which directs the dispute to the forum with a close connection to the dispute. In the case of contractual disputes, the factors considered include the residence of the parties, the place where the obligations are performed, and the place where the intellectual property was developed.

78. See Nygh & Pocar Report, *supra* note 12, at 48–50.

### Art. 8: Declaratory Judgments

Actions for a declaration of rights are particularly important to the intellectual property industries because commercialization often entails substantial investments. Without the ability to bring “negative declarations” that permit a court to declare a particular product unprotected or within the scope of a license, these investments would have to be made without knowing whether the information was actually available for the investor’s use. Should the investor guess wrong, sunk resources would be wasted.<sup>79</sup> At the same time, it is not desirable for investors to shy away from using material that is in the public domain: there is, in fact, a strong public interest in the exploitation of material that is not properly the subject of intellectual property protection.<sup>80</sup> Art. 8.1 furthers these private and public goals by creating an avenue for clarifying rights.

At the same time, however, declaratory judgment actions raise special procedural problems because they open forum shopping opportunities to would-be defendants. An example is the “Italian torpedo,” discussed below in connection with Art. 12, in which a declaratory filing is made in an Italian court, where dockets move slowly, in order to block adjudication of an infringement action in a forum more likely to quickly award injunctive relief. To avoid misuse of declaratory judgment actions, Art 12.5 refrains from treating a court hearing a declaratory case as the court first seized for purposes of the *lis pendens* doctrine. [Furthermore, Art. 8(2) requires that actions for declarations of patent invalidity be brought in the State where the patent was registered.] In this way, the Convention allows a rights holder to trump the declaratory plaintiff’s choice by bringing

79. The investment Kodak made in instant cameras is a good example of improvident investment. After the cameras were long on the market, Polaroid successfully sued for infringement. Kodak, its employees, and customers were all seriously hurt. See *Polaroid Corp. v. Eastman Kodak Co.*, 789 F.2d 1556, 1557 (Fed. Cir. 1986); Daniel F. Cuff, *Kodak Reports a Loss After Taking Writeoff*, N.Y. TIMES, Feb. 19, 1986, at D6 (reporting forced withdrawal from the instant camera field after patent ruling costing Kodak \$494 million); Thomas J. Lueck, *The Talk of Rochester; A City Nervously Waits for Layoff News*, N.Y. TIMES, Feb. 14, 1986, at B1 (describing losses to Kodak and its workers resulting from enforcement of Polaroid’s instant camera patent against Kodak).

80. Compare *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 527 (1994), where the court stated: Because copyright law ultimately serves the purpose of enriching the general public through access to creative works, it is peculiarly important that the boundaries of copyright law be demarcated as clearly as possible. To that end, defendants who seek to advance a variety of meritorious copyright defenses should be encouraged to litigate them to the same extent that plaintiffs are encouraged to litigate meritorious claims of infringement.

*Id.*

its own action; the court where the rights holder sues is then treated as the court first seized.

[The principal use of this provision in patent litigation is likely to be as a mechanism for challenging patent validity. An argument could be made that even if patent infringement actions are included within the scope of the Convention, actions invalidating them should be excluded. The theory is that an attack on registration should be treated as a local action, and that it should therefore be heard only in the place issuing the right. This position is rejected here: all intellectual property claims are considered sufficiently transitory to be heard in any member State's courts. However, Art. 8.2 recognizes that the State of patent registration is the *most* appropriate forum to hear a case whose object is to declare that registration improper. Art. 8.2 should be read as without prejudice to the power of a court hearing a coercive action (such as an infringement action) to determine patent validity (for instance, should it come up as a defense). Separating adjudication of validity from infringement prevents a court from hearing all of the evidence relevant to the action and from using its understanding of how a technology is utilized to inform its decision on the scope of the right. Bifurcating validity and infringement would also increase expenses for the parties.

Another way to handle the registered-rights problem was suggested by Curtis Bradley at the behest of the US State Department negotiators of the Hague Convention.<sup>81</sup> He would distinguish between rights among individuals and rights against the world. Parties would be allowed to litigate their entire case in any forum that has jurisdiction under the general terms of the Convention. However, if the case is litigated outside the State where the right was deposited or registered, the "status or validity of the deposit or registration of . . . rights [would have] effect as between the parties only."<sup>82</sup> This approach was rejected because the distinction between rights against a party and rights against the world is illusory. Experience shows that once the court of one commercially significant jurisdiction declares a patent invalid, the patentee cannot easily enforce the right, or counterpart rights, against any other party. Furthermore, licensees who continue to honor the patent then compete at a disadvantage with

81. See *Special Commission on International Jurisdiction and the Effect of Foreign Judgments in Civil and Commercial Matters*, Hague Conference on Private International Law, Work Doc. No. 97E, 39, 122 (Nov. 10–20, 1998) (copy on file with authors).

82. *Id.* Doc. No. 122.

respect to the judgment winner. The result is that the patent does not serve its intended purpose of stimulating innovation by rewarding innovators.]

### **Art. 9: Counterclaims and Supplemental Claims**

This section contemplates a broad right in all litigants to add claims arising out of the same transaction or occurrence. The main reasons for this rule are to facilitate consolidation and to prevent the narrow scope of this Convention from requiring parties pursuing claims or enforcing judgments to proceed in several fora simultaneously. The rule should not, however, be used in a way that permits parties to gain the benefits of the Convention for claims outside the scope of intellectual property. For that reason, Art. 9 gives courts discretion to dismiss supplemental claims when they substantially predominate over intellectual property claims. As noted above, this procedure is derived from US federal jurisdiction law.<sup>83</sup>

Under this provision, judgments on related causes of action will be entitled to enforcement if the other requirements of the Convention are met. The ability to add supplemental claims is, however, also a matter of the domestic law of the court seized with the action. It is significant to note that as global usage of intellectual property increases, courts have come to recognize as within their subject matter jurisdiction foreign claims, so long as they arise from transactions that also implicate local rights.<sup>84</sup> However, courts are prone to dismiss these cases on *forum non conveniens* grounds. That subject is taken up below, in connection with Art. 14.

Although the general approach of this draft Convention strongly favors consolidation of claims (see commentary to Arts. 10–14), it does not go further and require compulsory joinder of related claims, nor does it impose stringent rules of *res judicata* that would regard omitted transactionally related claims as precluded. Although US law so provides, such is not the rule in most countries; to impose it here would lead clients who are advised by attorneys unfamiliar with the US system to inadvertently lose their rights. Under this Convention, plaintiffs may—but are not required to—present all claims arising out of the transaction including those that sound in foreign law. Similarly, defendants may—but need not—present counterclaims

83. See 28 U.S.C. § 1367 (1994).

84. See, e.g., *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.*, 145 F.3d 481 (2d Cir. 1998); *Creative Tech., Ltd. v. Aztech Sys. Pte., Ltd.*, 1997 1 S.L.R. 621 (Sing. C.A.); *Aztech Sys. Pte., Ltd. v. Creative Tech., Ltd.*, 1996-1 S.L.R. 683 (Sing. High Ct.).

arising under foreign laws. As a result, parties who wish to resolve all their claims in a single forum may do so, but they cannot use *res judicata* law to curtail other parties' abilities to preserve their claims.

The net intended effect of Art. 9 is this: so long as the main thrust of the case is the enforcement of intellectual property rights, and supplemental claims presented by the parties are within the court's subject matter jurisdiction and not the subject of litigation in another forum, then the court seized with the action should hear the entire case.

**Arts. 10–14: Streamlining Adjudication: multiple defendants; third party claims; lis pendens, consolidation; exceptional circumstances for declining jurisdiction**

One difference between the Brussels and Lugano Conventions, on the one hand, and drafts of the Hague Convention on the other, is that the former allow courts other than the one first seized to suspend proceedings when related claims are pending in several fora.<sup>85</sup> There is scant discussion of this omission in the Reports issued in conjunction with the 1999 draft Hague Convention. One can, however, speculate that such a provision was omitted because consolidation has not proved popular in European practice.<sup>86</sup> According to one commentator, Europeans tend to view "a civil proceeding more as an efficient adjudication of the plaintiff's claim than as an equitable resolution of a dispute or, as in the United States, of an entire 'transaction or occurrence.'"<sup>87</sup>

Nonetheless, as economic transactions become globalized, consolidation will undoubtedly prove increasingly necessary to achieve efficient resolution of disputes. Significantly, despite the present lack of European practice, the revised Brussels Convention retains a consolidation provision.<sup>88</sup> For intellectual property, consolidation is especially important. Rights in intangible works can easily be utilized

85. See Brussels Convention, *supra* note 7, art. 22; Lugano Convention, *supra* note 7, art. 22.

86. See Stephen B. Burbank, *Jurisdictional Equilibration, the Proposed Hague Convention and Progress in National Law*, 49 AM. J. COMP. L. 203, 218 (2001) (citing Samuel P. Baumgartner, *Related Actions*, ZZPINT. 3 at 207–10 (1998)).

87. Baumgartner, *supra* note 86, at 210 (footnotes omitted). This view may be changing among continental jurists, *see, e.g.*, *Coin Controls Ltd. v. Suzo Int'l (UK) Ltd.*, [1997] F.S.R. 660, 678–79 (noting also that absent challenges to patent validity, patent claims derived from the same European Patent Office prosecution should be treated as related, if not the same, *see id.* at 673); *cf. Expandable Grafts P'ship v. Boston Scientific, B.V.*, [1999] F.S.R. 352 (Hof (den Haag)), ¶ 19 (consolidating cases when the defendants are part of the same group of companies).

88. Revised Brussels, *supra* note 7, art. 28.

around the globe, especially when they are embedded in products (such as digitized text files) that are themselves intangible. Because multiple infringements in multiple jurisdictions can result from such distributions, the ability to consolidate actions in one forum would save significant resources not only for the parties, but also for the international judicial system as a whole.

A more economical approach to multinational disputes may also curtail recent judicial tendencies to expand the reach of domestic laws to cover foreign infringements.<sup>89</sup> Extraterritorial application of law has become worrisome to many observers because it interferes with sovereign authority by limiting the extent to which a State can control the local conditions under which information is produced, utilized, and accessed. Further, by imposing one jurisdiction's law on activity in another location, extraterritorial application also undermines the TRIPs Agreement's principles of nationality and minimum standards. Litigants who maneuver a court in their home country into providing them with remedies they would not be awarded in another country receive better treatment than rights holders in that other country. As a result, the standards for protection in the second country in effect become the standards of the first. However, as long as it remains difficult for intellectual property holders to pursue their rights (because of costs, or difficulties in acquiring jurisdiction over defendants in territories where there are claims), courts will likely make up for the shortfall by finding that local law covers distant activity.<sup>90</sup> Permitting consolidated adjudication of worldwide claims facilitates efficacious resolution on a worldwide basis, and might thereby temper the extra-territorial impulse.

Equally important, consolidation provides a way to avoid inconsistent results. Because intellectual property law is not harmonized among contracting States, certain differences in outcomes are inevitable. Some are also tolerable. For example, an invention may be held patentable in one set of countries and not protectable in others. So long as the right at issue can be exploited only by embedding the knowledge in physical products, there will be few problems associated

89. See, e.g., *Update Art, Inc. v. Modiin Publ'g, Ltd.*, 843 F.2d 67, 73 (2nd Cir. 1988) (applying US copyright law to infringements in Israel that resulted from an initial reproduction of the work in the United States); see generally Jane C. Ginsburg, *The Private International Law of Copyright in an Era of Technological Change*, 273 RECUEIL DES COURS 322-48 (1998).

90. See generally Graeme W. Austin, *Domestic Laws and Foreign Rights: Choice of Law in Transnational Copyright Infringement Litigation*, 23 COLUM.-VLA J.L. & ARTS 1, 19-20, 27-28 (1999).

with this apparent inconsistency: people who make, use, sell, offer for sale, or import a product in a country where it is patented will need authorization, even though the same usage could take place without permission elsewhere. However, there are cases where differing outcomes are not acceptable. For example, so long as the Internet remains geographically unsegmented,<sup>91</sup> or entrepreneurs seek to engage in global marketing, multiple ownership of a trademark used on the Internet can confuse consumers, damage the integrity of protected signals, and harm the reputation of rights holders. Similarly, a decision by one State's court to permit the streaming of copyrighted material can be undermined if another State enjoins it as infringement. In such cases, it would be useful for one court to hear the entire worldwide dispute, and to find a resolution that can accommodate all interests at issue.<sup>92</sup> No one jurisdiction is likely to write law that expressly deals with multinational disputes; consolidated litigation provides an important way for this law to evolve.<sup>93</sup>

The ability to consolidate related world actions also furthers the goals of the TRIPs Agreement. While it is true that every member State is required to protect intellectual property rights,<sup>94</sup> the Agreement has a much looser standard regarding enforcement: countries are not required to treat intellectual property cases any differently from the way they "enforce their laws in general."<sup>95</sup> In countries where courts are backlogged, rights holders may find that they cannot quickly end infringement. But if these claims could be joined to a suit pending in a court capable of acting quickly, then the effects of overburdened litigation systems will be attenuated.

It has been suggested that facilitating consolidation of claims and recognition of judgments also has negative consequences. One argument is that it will result in greater enforcement of intellectual property rights and hence, lead to reduced usage of information. Under this view, tolerance of infringements is desirable, particularly for remote (and perhaps less affluent) jurisdictions. The problem for less developed countries is easily dealt with. This proposed Convention is

91. This is changing, however. See, e.g., Geist, *E-Borders*, *supra* note 71; Goldsmith, *supra* note 71.

92. Finding this outcome is a matter of the selection of an appropriate law to govern the entire transaction. This issue is discussed in connection with Art. 25, *infra*.

93. See generally Graeme B. Dinwoodie, *A New Copyright Order: Why National Courts Should Create Global Norms*, 149 U. PA. L. REV. 469 (2000).

94. TRIPs Agreement, *supra* note 2, art. 9.

95. *Id.* art. 41(5).

open only to WTO members whose obligations to implement the TRIPs Agreement have accrued. As in TRIPs, the obligations of these countries can be minimized.<sup>96</sup> And, as noted earlier, consolidated treatment may reduce the incidence of high-protectionist States extraterritorially extending their law to low-protectionist countries. If it does, then the special treatment TRIPs affords developing economies may be better effectuated through this provision than otherwise.

More generally, consolidation has, in fact, benefits for both users and rights holders. It preserves litigation resources and reduces opportunities for harassment. The recent example of the litigation between a large computer software developer, Computer Associates (“CA”), and a much smaller competitor, Altai, illustrates the point.<sup>97</sup> CA initiated a suit in New York for infringement of the copyright on a computer program. After losing, CA brought another action, arising out of substantially the same transaction or occurrence, in France. Altai was obliged to defend in both places, the Second Circuit having refused to enjoin the parties from pursuing the French claim on *res judicata* grounds. The court reasoned that French law applied to that claim, making it different from the one asserted in the US. The court also observed that one of the parties to the French action would not have been subject to personal jurisdiction in New York, even had CA pleaded the French copyright infringement as part of its action in New York. Under the approach proposed here, CA could have consolidated both claims in the New York federal court, because this Convention provides for personal jurisdiction over nonresident defendants when there is a substantial connection between the forum State’s intellectual property rights and the dispute involving that defendant, or when the forum State is the only one in which all claims could be consolidated (see Art. 10). Moreover, even had CA wished to retain the option of pursuing Altai in more than one forum, under this Convention, Altai could have raised the alleged French infringement as a declaratory judgment in the US proceeding (*forum non conveniens* no longer being available as grounds for dismissal in this instance, see Arts. 8 and 14).

96. See, e.g., WTO, *Draft Declaration on the TRIPs Agreement and Public Health*, art. 5(b), WT/MIN(01)/DEC/W/2 (Nov. 14, 2001) (noting the right of member states to use compulsory licensing and exhaustion rules to promote public health); *id.* art. 7 (extending deadlines for compliance with certain measures for least-developed countries); WTO, *Draft Ministerial Declaration*, art. 42, WT/MIN(01)/DEC/W/1 (Nov. 14, 2001) (acknowledging the need to specially consider the integration of least developed countries in to the trading system).

97. *Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 126 F.3d 365 (2d Cir. 1997).



Other negative consequences that have been suggested mirror the concerns expressed in the United States in connection with class actions, which also involve the aggregation of claims. Thus, commentators have worried about the effect of requiring a single court to apply the law of many states, noting that it could produce inaccurate results.<sup>98</sup> Some are concerned that courts will avoid that problem by stretching to find a single law applicable, in derogation of other legitimate interests.<sup>99</sup> Still others have claimed that aggregation confers undue power on plaintiffs, arguing that the downside risk of liability can lead defendants to improvident settlement of meritless claims.<sup>100</sup> The public-regarding component of intellectual property law could make such settlements—which may not be judicially reviewed—especially troublesome.

Nonetheless, the position taken here is that these problems can be reduced to the point where they are outweighed by the benefits of efficiency and avoiding inconsistency. As has also been noted in connection with class actions, both sides are equally affected by aggregation: knowing that it only has one chance to win, plaintiff is also under pressure to settle.<sup>101</sup> Indeed, the recent case of *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.*<sup>102</sup> supports the point. After the Second Circuit consolidated claims under eighteen nations' copyright laws, the case settled—for substantially less than was sought in the original complaint.<sup>103</sup> Adjudication can be simplified by structuring it carefully: factual issues can be tried first, and then legal issues can be determined sequentially, on a country-by-country basis.<sup>104</sup> When a set of States all have the same law on a particular issue, claims under all these laws could be tried together.<sup>105</sup> In some situations, one law may reasonably be applied to an entire dispute. Furthermore, experience with consolidated international cases may give courts the skill to find ways to further the interests of all relevant

98. See, e.g., Jonathan R. Macey & Geoffrey P. Miller, *A Market Approach to Tort Reform via Rule 23*, 80 CORNELL L. REV. 909, 910 (1995).

99. See, e.g., *Phillips Petroleum Co. v. Shutts*, 472 U.S. 797, 820–21 (1985); *Spence v. Glock*, 227 F.3d 308, 312–13 (5th Cir. 2000); see generally Austin, *supra* note 90.

100. See, e.g., George L. Priest, *Procedural Versus Substantive Controls of Mass Tort Class Actions*, 26 J. LEGAL STUD. 521, 547 (1997).

101. See Bruce L. Hay & David Rosenberg, “Sweetheart” and “Blackmail” Settlements in Class Actions: Reality and Remedy, 75 NOTRE DAME L. REV. 1377, 1386 (2000).

102. 145 F.3d 481 (2d Cir. 1998).

103. See ROBERT A. GORMAN & JANE C. GINSBURG, COPYRIGHT ch. 3.B.2. (6th ed. 2001).

104. Cf. Hay & Rosenberg, *supra* note 101, at 1382.

105. For a series of suggestions on how to structure complicated cases, see Larry Kramer, *Choice of Law in Complex Litigation*, 71 N.Y.U. L. REV. 547 (1996).

States, and to do so without sacrificing broader interests in information dissemination.<sup>106</sup>

It is also important to remember that class actions are materially different from the aggregation device proposed here. The parties choose their own attorneys, obviating concerns about the adequacy of representation and the possibility of “sweetheart” deals that sell out the class for the benefit of the lawyers. More important, because of fundamental clashes among the laws of the States affected and the current insufficiency of law to deal with the Internet, settlement may represent the best chance of resolving the dispute equitably. The parties may, for example, be better positioned than a court to find a way for them all to utilize their trademarks in a nonconfusing way in cyberspace.<sup>107</sup> If this is so, then the added inducement to settle created by aggregation should be counted as a benefit. In any event, the court first seized is directed to decline consolidation if the benefits of efficiency cannot be obtained because of concerns over manageability.

Both the US and EU have ways to avoid a multiplicity of suits over the same issues, but in both places, current practice makes complete consolidation rather difficult. On the one hand, the Brussels and Lugano Conventions avoid parallel litigation on identical causes of action through the *lis pendens* doctrine.<sup>108</sup> They also permit the court of a State where one defendant is domiciled to avoid the risk of inconsistent judgments by asserting jurisdiction over other defendants, so long as there is a connection between the forum State and the dispute.<sup>109</sup> In addition, the presence of a domiciled defendant and

106. Consider, for example, *Yahoo!, Inc. v. La Ligue Contre Le Racisme et L'Antisemitisme*, 169 F. Supp. 2d 1181 (N.D. Cal. 2001), which held unenforceable in the US a French order requiring Yahoo.com to prevent French users from reaching websites selling Nazi memorabilia. *Id.* at 1194. The US court's articulated justification was to uphold First Amendment values. *Id.* However, the result of its decision may be that the French authorities block all communication with Yahoo, thereby depriving French residents of the opportunity to access other information on Yahoo.com's site—surely a result even less friendly to free expression interests.

107. Significantly, such has also been the thinking of the WIPO. See *Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet (with Explanatory Notes)*, art. 13, WIPO Doc. 845(E) (adopted by The Assembly of the Paris Union for the Protection of Industrial Property and the General Assembly of the World Intellectual Property Organization (WIPO) at the Thirty-Sixth Series of Meetings of the Assemblies of the Member States of WIPO, Sept. 24 to Oct. 3, 2001) (giving the user of a trademark an opportunity to propose to the court an effective remedy prior to a decision on the merits of the case).

108. Brussels Convention, *supra* note 7, art. 21; Revised Brussels, *supra* note 7, art. 27. The Hague drafts include a similar provision. 1999 Draft Hague Convention, *supra* note 1, art. 21.

109. Brussels Convention, *supra* note 7, art. 6.1 (and related case law); Revised Brussels, *supra* note 7, art. 6.1; 1999 Draft Hague Convention, *supra* note 1, art. 14.

connection between the State and the dispute permits the assertion of adjudicatory authority over third-party defendants for contribution and indemnification under local law.<sup>110</sup>

Despite these provisions, consolidation of intellectual property disputes cannot always be achieved in Europe for several reasons. First, the Brussels and Lugano Conventions operate on the "assumption that there exists a fundamental jurisdiction based on the domicile of the defendant with the result that all other jurisdictions must be seen as exceptions which must be narrowly interpreted."<sup>111</sup> Second, they remit claims concerning the validity of a registered right to the country where the right is registered.<sup>112</sup> The combined effect of these two principles is that there may be no member State able to entertain all aspects of a multinational infringement case. In addition, the absence of a robustly functioning doctrine of *forum non conveniens* and the inflexibility of the *lis pendens* rule mean that even if there is a court with power to consider the entire case, it may be difficult to bring suits involving related causes of action to that forum.

In the US, the possibilities for consolidation are in some ways better. Since there is no hierarchy among the courts with power over the litigants, there is often a range of locations where a dispute could be adjudicated. Because the parties to an action are forced by joinder rules, *res judicata* law, and related doctrines to assert all transactionally related claims,<sup>113</sup> the full range of issues requiring adjudication will be aired in a judicial proceeding somewhere. The courts seized then have an array of transfer tools to bring related parts of the dispute together, at least for some purposes.<sup>114</sup>

In certain ways, however, the situation in the US is worse than in Europe. *Lis pendens* as a doctrine is not known. Although both state and federal courts can control parallel litigation by staying or enjoining second-filed proceedings, they are not under a clear obligation to do so. Moreover, there are circumstances where these doctrines are

110. Brussels Convention, *supra* note 7, art. 6.1; Revised Brussels, *supra* note 7, art. 6.2; 1999 Draft Hague Convention, *supra* note 1, art. 16.

111. Nygh & Pocar Report, *supra* note 12, at 28.

112. Brussels Convention, *supra* note 7, art. 16(4); Lugano Convention, *supra* note 7, art. 16(4); Revised Brussels, *supra* note 7, art. 22.4.

113. See FED. R. CIV. P. 13 (recognizing certain counterclaims as compulsory); *Marrese v. Am. Acad. of Orthopaedic Surgeons*, 470 U.S. 373 (1985) (claim preclusion).

114. Within the federal system, these include 28 U.S.C. §§ 1404, 1406, 1407 (2001). State-to-state transfers can be achieved through the doctrine of *forum non conveniens*. See, e.g., *Piper Aircraft Co. v. Reyno*, 454 U.S. 235 (1981).

not available.<sup>115</sup> As a result, there may be instances when courts will lack power to prevent multiple suits on the same or related claims. Most important, the power of US courts to fully consolidate multi-jurisdictional disputes appears to be heavily constrained by due process concerns: it is said that, in every case, there needs to be a volitional relationship between every defendant and the forum State.<sup>116</sup> Thus, there may be situations where all relevant parties cannot be joined in a single action.

This proposal takes advantage of pro-consolidation features in both systems, and does so in a manner that should not raise constitutional objections in the United States. One important part of promoting consolidation is the removal of constraints, such as those found in art. 12(4) of the 1999 draft Hague Convention and art. 16(4) of the Brussels and Lugano Conventions,<sup>117</sup> on adjudicating registered rights cases outside the jurisdiction where the rights are registered. But the main consolidation features are Arts. 10–14, which are intended to operate as follows:

#### **Art. 10. Multiple Defendants**

Like art. 14 of the 1999 draft Hague Convention, this proposal empowers any jurisdiction in which one defendant is habitually resident to hear claims involving other defendants when the forum has an interest in the dispute and there is a risk of inconsistent judgments. The commentary of the Nygh & Pocar Report on the operation of this provision and on why limitations were placed on the joinder of multiple defendants is relevant here, with two caveats.

(a) Inconsistent judgments (subpart 1(a)). This term requires elaboration because legal materials use it in many different ways, several of which are difficult to apply to intangible rights that can be enjoyed nonrivalrously. Thus, in the Hague commentary, the term

115. See Burbank, *supra* note 86, at 213–15 (citing *Landis v. N. Am. Co.*, 299 U.S. 248 (1936) (stay); *Nat'l Equip. Rental, Ltd. v. Fowler*, 287 F.2d 43 (2d Cir. 1961) (injunction)). Burbank notes that in effect, a *lis pendens* doctrine operates among federal courts. *Id.* at 213. However, the abstention doctrine that the Supreme Court articulated in *Colorado River Water Conservation District v. United States*, 424 U.S. 800 (1976), combined with the Anti-Injunction Act, 28 U.S.C. § 2283 (2001), prevent federal courts from dealing with parallel state court litigation. Burbank, *supra*, at 213.

116. See, e.g., *Asahi Metal Indus. Co. v. Superior Court*, 480 U.S. 102, 110 (1987); *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 297 (1980); *Keeton v. Hustler Magazine, Inc.*, 465 U.S. 770, 776 (1984). Significantly, the Hague negotiators dropped the multiple-party and third-party jurisdiction provisions from the latest draft, at least in part because of concerns over whether the assertion of such jurisdiction would raise due process concerns in the United States.

117. This provision is retained in art. 22(4) of Revised Brussels, *supra* note 7.

sometimes means that two courts find the facts of the case differently. In other places, it means the parties are subject to different obligations (for example, one judgment requires a debt be paid, the other relieves the defendant of the obligation to pay). In the US, inconsistency is sometimes defined rather stringently: two judgments are inconsistent only when it is impossible for the parties to conform to both.<sup>118</sup> The proposed Convention would adopt all of these views of inconsistency. However, in order to fully respond to the special problems presented by the public goods aspect of intellectual property, it goes even further to include the situation in which the judgment of one court would undermine the law and policy of other member States.

Consider as an example of these differing approaches, the facts of *Twentieth Century Fox Film Corp. v. iCraveTV*,<sup>119</sup> where television signals from the United States and Canada were picked up in Canada, and then streamed without authorization onto the Internet. Because the defendants were Americans who retained contact in the US, but centered their activities in Canada, suit for copyright infringement could be brought in both countries. In such litigation, the courts of both countries might rely on the same facts, but because of differences in law, each court could reach a different result on the question whether the activity is infringing. The United States could decide the activity is actionable, while a court in Canada could decide that the copyright holder's interests were exhausted by the first transmission of the work, or that the activity is protected under Canada's version of the fair use doctrine. Are the outcomes inconsistent? Both courts relied on the same facts, so there would be no inconsistency in fact finding. There is an obligation to pay only for retransmission into the United States, so there would be no inconsistency in obligations. Furthermore, it is possible for the defendants to conform to both US law and Canadian law by acquiring permission to stream. Nonetheless, the differing outcomes are problematic. So long as effective barriers to Internet sites cannot be erected, adhering to US insistence on authorization raises costs or reduces access in Canada, and thus trumps Canadian information policy. Of course, the defendants

118. See, e.g., *Indianapolis Colts v. Mayor of Balt.*, 733 F.2d 484, 487 (7th Cir. 1984) (interpleader case).

119. *Twentieth Century Fox Film Corp. v. iCraveTV*, Nos. 00-121 & 00-120, 2000 U.S. Dist. LEXIS 1013, at \*1 (W.D. Pa. Jan 28, 2000); see also *Copyright Infringement: NFL, NBA Seek to Halt Retransmission of Telecasts; NFL v. TVRadioNow Corp.*, ANDREWS INTELL. PROP. LITIG. REP., Feb. 9, 2000, at 4.

might be able to stay out of the United States and avoid the effect of its judgment, but then the Canadian outcome would trump US policy.<sup>120</sup>

Because one of the main benefits of consolidation is that it would permit a court to consider these sorts of differences among national rules and find ways to reconcile national interests, this is the kind of problem that should trigger the joinder power. Thus, for purposes of the proposed Convention, the “risk of inconsistent judgments” should encompass this sort of clash between court judgments and national policies.

(b) Due process. As noted above, a traditional US analysis of personal jurisdiction would prevent a court from exercising jurisdiction over defendants whose contacts with the forum are only those described in art. 14 of the 1999 draft Hague Convention or art. 6(1) of the Revised Brussels Convention. This is because the relationship that is necessary under arts. 14 and 6(1) is the one between the forum and the dispute, not the one between the forum and the defendant, as per US standards. Apparently, the Hague negotiators were so concerned that this provision could not be accepted in the US that they eliminated this provision from the more recent draft of the Convention. To remedy the perceived problem while retaining the ability to consolidate, Art. 10 proposes two different relationships as the basis for asserting multiple-defendant jurisdiction.

1. *Subpart 1(b)*. Defendants subject to jurisdiction under subpart 1(b) are those seeking to utilize intellectual property recognized under forum law. While utilization of protected material does not create a strong connection to the forum, it is a voluntary connection that produces, within the forum, the effects of undermining the exclusive positions of rights holders and licensees, attenuating the incentive available under the intellectual property system, and—in the case of trademarks—causing consumer confusion. Significantly, jurisdiction based on an “effects test” has been recognized in the US in antitrust and trademark cases,<sup>121</sup> and in other contexts as well.<sup>122</sup> Typically, it

120. For further discussion, see Rochelle Cooper Dreyfuss, *An Alert to the Intellectual Property Bar: The Hague Judgments Convention*, 2001 U. ILL. L. REV. 421.

121. The “effects test” has been established in antitrust cases. Cf. *Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 795–96 (1993) (assuming that if there is legislative jurisdiction under the Sherman Act, a US court has power to hear the case). It is also well known in trademark cases. See, e.g., *Bancroft & Masters, Inc. v. Augusta Nat’l Inc.*, 223 F.3d 1082, 1087 (9th Cir. 2000).

122. See, e.g., *Yahoo! Inc. v. La Ligue Contre Le Racisme et L’Antisemitisme*, 145 F. Supp. 2d 1168, 1174 (N.D. Cal. 2001) (asserting jurisdiction over the winning plaintiff in a French

will have been alleged that the defendant committed an intentional act; that was expressly aimed at the forum State; and that caused harm, the brunt of which the defendant knew was likely to be suffered in the forum State.<sup>123</sup> In the cases contemplated here, the effects may sometimes be more attenuated. However, the interests of the forum and of the judicial system as a whole strongly favor consolidation as a means to avoid inconsistent outcomes. While it is not clear how much these interests matter in a due process analysis, the combination of effects, the concern over inconsistency, and the US's interest in maintaining the value of its intellectual property rights may be enough to tip the balance in favor of permitting the exercise of specific jurisdiction.<sup>124</sup> Further, to the extent that power over non-US defendants is governed by international standards of reasonableness,<sup>125</sup> European reliance on this basis for asserting jurisdiction should also militate in favor of allowing a court to exercise jurisdiction in cases falling under this subpart.

2. *Subpart 1(c)*. There may be situations where the commercial benefit of activity in one territory is dependent on parallel acts in other locations. In such cases, it could be that there are few participants who have contacts with all of the places where infringement takes place, but the enterprise as a whole necessarily contemplates contact in each jurisdiction. This provision is intended to enable a court to fully resolve disputes arising from these "hub and spoke" situations. Admittedly, contact between the forum and certain defendants will be extremely attenuated. Nonetheless, it should be considered sufficient, even in the US. It is akin to the conspiracy theory of jurisdiction that has been used by US courts in other contexts.<sup>126</sup> Moreover, while the Supreme Court has never expressly approved a concept of "personal jurisdiction by necessity," the Court has allowed the limits of due process to be stretched when there would otherwise be no forum in which the dispute could be adjudicated and where

action on the theory that enforcing the judgment will affect the US plaintiff in the French case).

123. *Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316, 1321 (9th Cir. 1998)

124. *See, e.g., Mullane v. Central Hanover Bank & Trust Co.*, 339 U.S. 306, 312-13 (1950).

125. *See Asahi Metal Indus. Co. v. Superior Court*, 480 U.S. 102, 115 (1987); *see also* RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW § 421(2)(j) (1987) (stating that "a state's exercise of jurisdiction to adjudicate . . . is reasonable if . . . the person, whether natural or juridical, had carried on outside the state an activity having a substantial, direct, and foreseeable effect within the state").

126. *See, e.g., United Phosphorus, Ltd. v. Angus Chem. Co.*, 43 F. Supp. 2d 904, 912 (N.D. Ill. 1999) (antitrust law); *Mandelkorn v. Patrick*, 359 F. Supp. 692, 694-97 (D.D.C. 1973) (action against a religious sect); *see generally* Ann Althouse, *The Use of Conspiracy Theory to Establish In Personam Jurisdiction: A Due Process Analysis*, 52 *FORDHAM L. REV.* 234 (1983).

there is some contact between the defendant and the forum.<sup>127</sup> Here, the defendant will have affiliated himself with an enterprise deriving benefits from the forum's intellectual property and with a party who is a forum resident. Again, to the extent that jurisdiction over aliens is determined by international standards of reasonableness, the fact that defendants in this situation would be subject to jurisdiction under European law should be relevant.<sup>128</sup>

As to both parts, it has been suggested by William Dodge that it may be possible to meet US domestic due process requirements using a general doing business theory (even though the Convention prohibits asserting jurisdiction on this basis) and to meet the Convention's requirements under the multiple-defendant provision.<sup>129</sup>

### **Art. 11 Third Party Claims**

This provision is taken from art. 16 of the 1999 Draft Hague Convention and is adapted to make clear that third parties can be summoned to the jurisdiction only when they have entered into a relationship regarding the intellectual property of the forum, thus making the assertion of jurisdiction over them reasonable. The comments of the Nygh & Pocar Report, along with the commentary above on Art. 10, are relevant.

### **Art. 12 Lis Pendens**

Because the jurisdiction rules in this Convention will often point to more than one location with power to hear a case, provision must be made to avoid parallel litigation. Americans are comfortable with solving this problem by giving courts discretion to decide on an appropriate forum.<sup>130</sup> However, there is profound disagreement on this issue in other places. The practice in Europe, for example, is to give absolute preference to the court first seized. Once it is determined

127. Compare *Atkinson v. Superior Court*, 316 P.2d 960, 966 (Cal. 1957) (en banc), with *Hanson v. Denckla*, 357 U.S. 235, 254 (1958). See also *Mullane*, 339 U.S. at 313 (1950). Note also that the Federal Rules of Civil Procedure also contemplate some stretching of jurisdictional limits. Thus, there is nationwide jurisdiction in interpleader actions, 28 U.S.C. § 2361 (2001) and FED. R. CIV. P. 4(k)(1)(C); and jurisdiction over defendants in federal question cases that is based on national contacts when there are not sufficient contacts with any one state, FED. R. CIV. P. 4(k)(2).

128. See, e.g., *Expandable Grafts P'ship v. Boston Scientific B.V.*, [1999] F.S.R. 352 (Ct. App. The Hague, Apr. 23, 1998). This so-called "spider in the web" theory of jurisdiction has not, however, been approved by the European Court of Justice. See Fritz Blumer, *Patent Law and International Private Law on Both Sides of the Atlantic*, *WIPO Forum on Private International Law and Intellectual Property* (2001), at <http://www.wipo.int/pil-forum/en/>.

129. William S. Dodge, *Antitrust and the Draft Hague Judgments Convention*, 32 *LAW & POL'Y INT'L BUS.* 363, 378-79 (2001). See also the discussion of contacts in the context of Art. 6 on infringement actions, *supra*.

130. See, e.g., 28 U.S.C. § 1404 (2001).



that this court has jurisdiction to hear a case, other courts entertaining the same cause of action must suspend proceedings, and if the other case goes forward they must ultimately decline jurisdiction.<sup>131</sup> Courts entertaining related causes of action may, upon application of the parties, also stay out, so long as the court first seized has jurisdiction over these related claims.<sup>132</sup> There is no authority to transfer the resulting case to any other court. The 1999 Hague Draft is slightly different. It establishes a presumption in favor of the court first seized with respect to the same cause of action,<sup>133</sup> but the presumption can be rebutted when the court second seized, or in exceptional circumstances, another court, “is clearly more appropriate to resolve the dispute.”<sup>134</sup> (As earlier noted, the Hague Convention does not have a consolidation provision.)

This proposal follows the Hague draft’s lead. It too sets up a presumption in favor of the forum first seized and it allows for rebuttal of the first-seized presumption. However, it requires consolidation of exactly parallel litigation and expands the circumstances in which the court first seized can decline the case. In situations where litigation on related claims are pending in several fora, and strong benefits could be obtained through consolidation, the court first seized has the power to use discretion—informed by the parties—to find a forum well suited to resolve the entire dispute.

The comments of the Nygh & Pocar Report on the 1999 Hague Draft are relevant, with the following caveats:

(a) Scope of required consolidation. The 1999 draft Hague Convention uses the term “causes of action,” which the Nygh & Pocar Report rightly points out can be confusing.<sup>135</sup> Art. 12 clarifies the concept, without expanding its scope (given the Report’s expansive definition), by referring to claims arising under a single territory’s intellectual property right, created through the defendant’s alleged activity. For example, in a dispute between a Mexican and an American over the latter’s intentional use in Mexico of the former’s intellectual property, the case could properly be brought in the US (per Art.

131. Brussels Convention, *supra* note 7, art. 21; Lugano Convention, *supra* note 7, art. 21; Revised Brussels, *supra* note 7, art. 27.

132. Brussels Convention, *supra* note 7, art. 22; Lugano Convention, *supra* note 7, art. 22; Revised Brussels, *supra* note 7, art. 28. Under all three documents, related causes of action are those that are so closely connected that it is expedient to hear and determine them together to avoid the risk of irreconcilable judgments resulting from separate proceedings.

133. 1999 Draft Hague Convention, *supra* note 1, art. 21.

134. *Id.* arts. 21(7) & 22.

135. Nygh & Pocar Report, *supra* note 12, at 85.

3) or in Mexico (per Art. 6). If the court first seized is the US court, then that court would be the only one authorized to hear the case. If the defendant were to later file a declaratory action involving the same claim in Mexico, the Mexican court would be required to suspend proceedings and then dismiss the case after the US court renders judgment. In that way, the plaintiff's decision to sue in the US, where the defendant's assets were located, would be honored and an attempt to split the case would be foiled. Were the Mexican court to nonetheless render a judgment, it would not be entitled to enforcement, see Art. 25.1(b).

(b) **Registered rights.** Because the 1999 draft Hague Convention assigns exclusive jurisdiction over registered rights cases to the State where the rights are registered, certain intellectual property claims cannot be consolidated in the forum first seized. To the extent that this proposal subsumes registered rights, it facilitates a higher degree of consolidation.

(c) **Declaratory judgment actions.** Art. 12.5 creates an important exception to the presumption in favor of the court first seized. It does so because declaratory judgment actions present special problems. As both the Hague drafters and the ALI's International Jurisdiction and Judgment Project recognize, these actions could be used by a potential defendant to preempt a plaintiff's choice of forum and to defeat the jurisdiction of the most appropriate court.<sup>136</sup> In litigation involving information products, this problem is particularly severe. Because information cannot easily be withdrawn once released, injunctions can be especially important; declaratory actions in courts hostile to preliminary injunctive relief can deprive rights holders of a critical remedy. In Europe for example, "Italian torpedoes"—declaratory judgment actions in Italian courts—are used to prevent the courts in other European countries from issuing trans-border injunctions in patent cases.<sup>137</sup> They may even be used to prevent local injunctions from issuing in other countries.<sup>138</sup>

136. See *id.* at 87–88; PROPOSED FOREIGN JUDGMENTS RECOGNITION AND ENFORCEMENT ACT § 8 (2002) and associated commentary.

137. See Robin Jacob, *The Deioma Lecture: International Intellectual Property Litigation in the Next Millennium*, 32 CASE W. RES. J. INT'L L. 507, 511 (2000); Paul A. Coletti, *No Relief in Sight: Difficulties in Obtaining Judgements in Europe Using EPO Issued Patents*, 81 J. PAT. & TRADEMARK OFF. SOC'Y 351, 367 (1999).

138. See Trevor C. Hartley, *How to Abuse the Law and (Maybe) Come Out on Top: Bad-Faith Proceedings Under the Brussels Jurisdiction and Judgments Convention*, in LAW AND JUSTICE IN A MULTI-STATE WORLD: A TRIBUTE TO ARTHUR T. VON MEHREN 73 (James A. R. Nafziger & Symeon C. Symeonides eds., 2002).

To prevent this especially corrosive kind of forum shopping, this provision follows the Hague draft's lead by allowing a court seized with a coercive action—typically, an action for intellectual property infringement—to disregard the presumption in favor of the court first seized when the action in that court is solely declaratory. Instead, the court hearing the declaratory case must suspend its proceedings and allow the coercive action to go forward.<sup>139</sup> For instance, if the American in the previous example were to preempt the Mexican by bringing a declaratory action in the Mexican court, (in an effort, perhaps, to take advantage of docket congestion to delay judgment), a US court later seized with an infringement action could ignore the action pending in Mexico. In that situation, the first judgment entered would be the one entitled to enforcement under this Convention.

(d) Negating the presumption in favor of the court first seized. The 1999 draft Hague Convention includes two ways to rebut the presumption in favor of the court first seized: through the *forum non conveniens* doctrine,<sup>140</sup> which puts several courts into play as the target of transfer, and through its provision of limited circumstances that allow a court to transfer an action to the court second seized.<sup>141</sup> Since this Convention creates more liberal rules on transfer, there is no need for a second way to rebut the presumption.

(e) Determining when a court is seized. As Nygh & Pocar note, it is important to prevent ambiguity as to the time when a court is seized. This provision is adapted from the Revised Brussels Convention,<sup>142</sup> on the theory that its position is based on substantial experience with the 1968 Convention.

### Art. 13 Consolidation

This article is based on the practice contemplated by the Brussels Convention.<sup>143</sup> It facilitates centralized adjudication of a multi-national dispute through, essentially, transfer of related actions to a single forum if consolidated proceedings would more efficiently resolve the dispute. The section also provides guidance on how that

139. This is in accordance with practice in the US. See, e.g., *Elbex Video Ltd. v. Tecton Ltd.*, 57 U.S.P.Q.2d 1947, 1949 (S.D.N.Y. 2000) (refusing to follow the Second Circuit's first-to-file rule by dismissing a case in favor of allowing the case to be heard by a California court where a declaratory judgment action was filed on the ground that circumstances demonstrated that the California action had been filed "in order to deprive plaintiff of its choice of forum").

140. 1999 Draft Hague Convention, *supra* note 1, art. 22.

141. *Id.* art. 21(7).

142. Revised Brussels, *supra* note 7, art. 30.

143. Brussels Convention, *supra* note 7, art. 22. This provision is carried over to art. 28 of Revised Brussels.

choice should be made. In general, cases would be consolidated when there is a risk of inconsistent judgments (as previously defined) or when other efficiencies will be obtained, and the benefits of consolidation would outweigh the potential increased difficulty of managing the litigation.

Once it is determined that cases should be consolidated, the next question is, where. Although the *lis pendens* provision could be expanded to centralize the dispute in the court first seized with the action, thereby limiting judicial discretion in accordance with (what can be perceived to be) the preferred approach outside the United States, the rigidity of that solution was rejected. It would give the first plaintiff too much control over the litigation. More important, it would sometimes situate litigation in a court ill suited to the task of dealing with complex matters or in a court far removed from the center of gravity of the dispute. At the same time, however, the controversy over judicial discretion must be avoided. This proposal presumes that when related cases are pending before several tribunals, the court seized first will take the lead oar. Under Art. 13, the presumption is that this is the court that will decide the case. However, Art. 14 gives it cabined power to defer to another court. This procedure not only adheres to a procedure with which much of the world is familiar, it also avoids the prospect that courts will handle the related cases in inconsistent ways.

As with the *lis pendens* rule, the consolidation provision is enforced through Art. 25.1(a) and (b). That is, if a claim is consolidated in a particular court, then the judgment of any other court on that claim is denied enforcement. The enforcing court is not free to re-examine consolidation decisions: if, for one reason or another, some related claims were not consolidated and instead tried separately, any resulting judgments should be enforced.

#### **Art. 14: Exceptional Circumstances to Decline Jurisdiction**

This section, which is akin to the US practices of *forum non conveniens* and transfer, gives the court first seized power to defer to another forum. As such, it does double duty. It guides a court in determining whether another forum is a more appropriate place to adjudicate a case, and it provides guidelines for deciding where a consolidated case should ultimately be heard. As in the 1999 Hague Draft,<sup>144</sup> a court's power to unilaterally refuse to exercise jurisdiction

144. 1999 Draft Hague Convention, *supra* note 1, art. 22.

is highly circumscribed: the circumstances must be “exceptional” and the other forum must be clearly more appropriate. However, under this Convention, it is not necessary—as it is under the Hague Draft—to find that the court first seized is an inappropriate forum. Again, too much rigidity would give an inappropriate level of power to the first plaintiff; it would encourage races to the courthouse; and it could prevent a court better suited to the task from deciding the case.

All of the grounds for finding a case exceptional that are found in the Hague draft are included here. They are supplemented by grounds needed to determine the most appropriate forum for consolidated adjudication.

(1) Factors for deciding to defer to another court in all cases.

*Subsections 2 (a), (b), (c), (d): inconvenience, location of evidence, limitations periods, recognition:* These provisions are taken from the 1999 draft of the Hague Convention and the Nygh & Pocar Report provides the relevant commentary.<sup>145</sup> As reported by Nygh & Pocar, the court is to compare how well each of the litigants will fare if the case is transferred. This requires consideration of the distances the parties will be required to travel as well as each party’s ability to hire lawyers and to deal with unfamiliarity of procedure, substantive law, and language. The court should, in other words, consider the relative resources of the parties and their capacity to cope with the demands of litigating in each of the potential fora. Also, since experience under the Brussels Convention demonstrates that fora can differ markedly in their capacity to clear their dockets, the court should consider whether the case would be decided as speedily if it was adjudicated in a different forum. Note that the relevant issue is how fit the parties are to *deal* with these issues; not how these matters affect the *outcome*.<sup>146</sup>

*Subsection 2(e): Significant relationship.* This section contemplates the situation where it will be clear that a single State has a closer relationship to the case than any other, and suggests that a forum in that State should entertain the case. For example, cases that involve domiciliaries (habitual residents) of a single State or rights under a single State’s laws should, all other things—including the relative resources of the parties—being equal, be moved to that State;<sup>147</sup> actions concerning contracts wholly negotiated in a single

145. Nygh & Pocar Report, *supra* note 12, at 91–92.

146. *Cf. Piper Aircraft Co. v. Reyno*, 454 U.S. 235, 249–50 (1981).

147. *Cf. Heathmount A.E. Corp. v. Technodome.Com*, 106 F. Supp. 2d 860 (E.D. Va. 2000)

State should be adjudicated in the State where the contract was negotiated; infringements that occur wholly within a single State should be litigated there.

In addition, a court should consider deferring actions largely centered around the validity of registered rights to a court in the place of registration. As noted in other places, this Convention rejects the notion that intellectual property disputes based on registered rights are local actions that can only be heard at the place of registration. Nonetheless, in actions in which a main claim is that a right was improperly registered, the law of the place of registration will be of prime importance. Moreover, the only courts that can easily control invalidation, nullification, or revocation are the fora of the State of registration. Thus, if registration is the main issue in a dispute, then a court in the State of registration is likely to be the most appropriate forum.

In some cases, particularly those involving consolidation, more than one jurisdiction's registration will be in issue. But even in these cases, there may be a most appropriate forum. For example, under the Madrid Agreement, invalidation of a trademark registration in the country of origin within five years of the international registration date leads to invalidation of the trademark right in all other member States.<sup>148</sup> In a trademark case involving this provision, a court in the State of origin should hear the case.

[*Subsection 2(f): Expertise in patent cases.* The patent bar has been particularly wary of the Hague Convention because, among other things, it is concerned about the complexity and technical difficulties that patent cases present to lay judges. The bar points out that national patent laws are more diverse from one another than are other intellectual property laws. As a result, judges are less likely to decide foreign patent cases accurately. Moreover, many jurisdictions channel patent cases to specialized tribunals. The benefits of channeling would be undermined if a foreign court were allowed to decide some of these cases. Many patent lawyers thus do not see a role for consolidation; they would prefer to have every patent case decided by a court of the State whose law is in issue.

(questioning whether it would not be better to have resolved a domain name dispute between two Canadians in Canada instead of in the US).

148. Madrid Agreement Concerning the International Registration of Marks, Apr. 14, 1891, as last revised at Stockholm, July 14, 1967 (amended 1979), art. 6.3, 828 U.N.T.S. 389, available at [http://www.wipo.int/madrid/en/legal\\_texts/pdf/madrid\\_agreement.pdf](http://www.wipo.int/madrid/en/legal_texts/pdf/madrid_agreement.pdf).

These are, of course substantial problems. The Convention's approach to dealing with them is to give courts entertaining patent cases authority to defer adjudication to courts with patent law expertise. In cases involving the law of only one State, this will presumably be a court in that State, producing the result the patent bar favors. In consolidated actions, the import of this subsection will be slightly different. There are several States around the world that maintain specialized tribunals for adjudicating patent cases. The UK Patent Court (or the EU patent court that might take its place) and the Court of Appeals for the Federal Circuit are examples. The notion here is that litigation in multinational cases should be directed to systems with these types of fora. Since most multinational disputes are likely to include claims under the law of at least one State that has such a court, this choice will usually be available. Admittedly, the expertise of the judges on these courts is currently in their own country's patent law. However, their ability to handle technical materials and their intimate knowledge of core patent principles (such as those imposed on all member States by the TRIPs Agreement) would likely make them at least as good at handling foreign patent cases as generalist judges in the country whose law is in issue. Hopefully, this benign form of forum shopping would institutionalize over time, so that a specific set of courts would handle most consolidated patent actions.<sup>149]</sup>

(2) Additional factors to be considered in consolidated cases

*Subsection 3(a): Authority over the parties.* In many instances where the claims are related enough to consolidate, Arts. 10 and 11 will give all (or most) of the courts where actions are pending authority over all the defendants. But in cases where there are significant differences in adjudicatory authority, the court chosen for consolidation should, other things—such as resources—being equal, be the court with adjudicatory power to hear as much of the worldwide dispute as is possible.

There may be cases in which a court is asked to decline jurisdiction because it lacks adjudicatory authority to consolidate all of the claims that could potentially be asserted, and there is another forum with the power to consolidate all those claims. In such cases the court should take account of where the most significant economic impact

149. Cf. Kimberly A. Moore, *Forum Shopping in Patent Cases: Does Geographic Choice Affect Innovation?*, 79 N.C. L. REV. 889, 903 (2001) (showing that patent cases in the United States tend to channel to ten judicial districts).

lies. Thus, while another court may have power over more parties (or more claims under subsection 3(b)), the court first seized may nonetheless choose to retain jurisdiction because it is the forum of the most significant economic impact.

*Subsection 3(b): Authority over the subject matter.* As noted earlier, although this Convention facilitates joinder, it does not require member States to alter the subject matter jurisdiction of their courts. Accordingly, one factor in determining the right court is whether the parties can assert all claims relating to the transaction, including claims based on foreign law. By the same token, this is a factor in choosing the forum for a consolidated action: the court chosen should, all other things being equal, be one with the power to handle as much of the dispute as possible. See also the above comment to subsection 3(a).

*Subsection 3(c): Contract cases.* As noted in Art. 7, multinational contract disputes should be adjudicated in the forum with the most significant relationship to the contract.

There may cases where jurisdiction under this provision raises fairness (due process) concerns. In the US, for instance, it could be argued that if, say, a suit encompasses rights under US, German, and Japanese law, then it is general, rather than specific, jurisdiction that is at issue. As a result, more contacts with the forum are necessary. But as the discussion of consolidation elaborated, there are strong reasons to believe that even US concepts of due process would be satisfied. The contract is the “but for” cause of the litigation, thus an argument could be made that jurisdiction is specific even in the case of multinational rights. Moreover, the cases that involve rights under several countries’ laws will typically be commercial contracts and the parties will have multiple contacts with the jurisdictions at issue. They will also be parties with enough sophistication to use forum selection clauses whenever it is important to be certain of the forum in advance. The interests of the parties and judicial system in efficient resolution may also come into play in the analysis.

Factor 3(c)(2), the country in which the intellectual property was developed, is new and thus requires further discussion. The notion is that the act of licensing a work with an obvious national identity is enough contact with that nation to support jurisdiction. Further, because one of the principal functions of intellectual property law is to stimulate and shape the creativity of a nation’s citizenry, the country where the work was developed has a very strong interest in the dis-



pute and perhaps even insights, and access to the evidence, needed to resolve it. For example, the decision to make a film of a French book written in France by a French national, is a voluntary and foreseeable affiliation with France; if the dispute raises questions of authorship, it is French law and French materials that will likely be in issue. Given this intent, the country of development should be understood as encompassing factors such as the place where the work was physically created, developed, or invented; the residence and nationality of the person or commercial entity most closely responsible for the work's existence; the place where the work was first utilized, published, or registered. In some cases, these factors will point in several directions. If that is the case—if the work has no readily identifiable locus—then this criterion should not be utilized to determine jurisdiction.

An argument could be made that the better approach would be to fully incorporate into this Convention the “country of origin” concept that is already familiar to the international intellectual property bar. That position was not adopted. First, each international instrument uses the term differently. For example, the main criterion of origin for copyrighted works under the Berne Convention is the place of first publication;<sup>150</sup> the Paris Convention defines the country of origin for trademarks as “where the applicant has a real and effective industrial or commercial establishment, or . . . his domicile, or . . . the country of which he is a national”;<sup>151</sup> in the EU's Satellite and Cable Directive, the country of origin is the place where the signals were introduced into the chain of communication.<sup>152</sup> Second, the term is not in general use in connection with certain of the rights that are covered by this Convention. Third, to the extent first publication is the main criterion, it is problematic for cases involving Internet distribution because the place of first publication is not always determinate (or particularly relevant).<sup>153</sup> Accordingly, this Convention rejects first publication as a sole criterion. The factors it uses are not entirely unknown: as noted above, they are used in the Paris Convention; they are also used in the Berne Convention for unpublished

150. Berne Convention, *supra* note 4, art. 5(4)(a).

151. Paris Convention, *supra* note 6, art. 6<sup>quinquies</sup>.

152. Council Directive 93/83/EEC of 27 September 1993 on the Co-Ordination of Certain Rules Concerning Copyright and Rights Related to Copyright Applicable to Satellite Broadcasting and Cable Retransmission, 1993 O.J. (L 248) 15.

153. See Jane C. Ginsburg, *The Cyberian Captivity of Copyright: Territoriality and Authors' Rights in a Networked World*, 15 SANTA CLARA COMPUTER & HIGH TECH. L.J. 347, 351–52 (1998–1999).

works.<sup>154</sup> One factor that could be adopted from the labeling context is the rule that every good has only one country of origin, no matter how many sources of inputs were involved. However, such a procedure would not appear to further the goal of finding the best forum to resolve the dispute.

(2) Nondiscrimination.

*Nationality and habitual residence.* Section 4 bars the court considering whether to decline jurisdiction from taking into account the nationality or habitual residence of the parties. The comments of the Nygh & Pocar report are relevant as these factors are carried over from art. 22 of the 1999 Hague draft.<sup>155</sup>

*Foreign law.* Section 5 bars the court from considering the presence of foreign law. This is new to this Convention. It was included because otherwise, the goal of consolidating worldwide claims, which is a key motivator of this proposal, would be undermined.

Today, it is common practice for common law courts that have *forum non conveniens* discretion to dismiss foreign claims within their subject matter authority.<sup>156</sup> This Convention would require a change in that practice, but it would also significantly weaken the rationales that support it. Thus, one justification is that intellectual property actions are local, not transitory causes. Adoption of this Convention necessarily represents a rejection of that theory. Another theory is

154. Berne Convention, *supra* note 4, art. 5(4)(c). There are “country of origin” definitions in other statutes as well. For example, the US federal marking statute, 19 U.S.C. § 1304, requires every item imported into the US to be marked in a manner that indicates “the country of origin of the article.” Australia’s Free Trade Practices Act similarly requires country of origin representations on imported products. See Alexander Moriarty, *Australia: Trade Legislation—Country of Origin Product Labeling*, 5(3) INT. T.L.R. N17 (1999). International trade agreements have similar requirements. See, e.g., North American Free Trade Agreement, Dec. 17, 1992, art. 311, 32 I.L.M. 289, available at the Organization of American States website, <http://www.sice.oas.org/trade/nafta/naftatce.asp>. However, the definitions provided in these agreements are not appropriate here. First, there is no general international agreement on a single definition. Second, these measures apply to tangible goods, where the main problem is determining how much transformation in the state of the goods is necessary to change the country of origin designation. Transformations are sometimes a problem in intellectual property (a book can be transformed into a play, for example). However, the main problem will often be that the work is created by mingling multiple international inputs. Cf. Rochelle Cooper Dreyfuss, *Collaborative Research: Conflicts on Authorship, Ownership, and Accountability*, 53 VAND. L. REV. 1161 (2000). Thus, the rules used for goods are not apposite.

155. See Nygh & Pocar Report, *supra* note 12, at 92.

156. See, e.g., *Murray v. British Broad. Corp.*, 81 F.3d 287 (2d Cir. 1996) (copyright); *Creative Tech., Ltd. v. Aztech Sys. Pte., Ltd.*, 61 F.3d 696 (9th Cir. 1995) (copyright). Cf. *Mars Inc. v. Kabushiki-Kaisha Nippon Conflux*, 24 F.3d 1368, 1375 (Fed. Cir. 1994) (declining to exercise supplemental jurisdiction over foreign patent claims). For commonwealth examples, see *Plastus Kreativ A.B. v. Minnesota Mining & Mfg. Co.*, [1995] R.P.C. 438, 447 (Eng. Ch. 1994); *Potter v. Broken Hill Proprietary Co.*, (1906) 3 C.L.R. 479, 492 (Austl).

that intellectual property laws are “public rights.” Again, the decision to join this Convention means that a State agrees to allow foreign courts to construe and apply its intellectual property laws. Some courts consider foreign rights too difficult to adjudicate. While that may be a factor in patent cases, the convergence of the other branches of intellectual property law make this a weak reason to dismiss foreign copyright or trademark claims, or the claims that come in under the unfair competition rubric.<sup>157</sup> Moreover, courts are increasingly called upon to apply foreign law, even when local rights are in issue.<sup>158</sup> Finally, courts may be motivated to dismiss foreign claims because they are concerned that they will spend time on a case only to find their judgments unenforceable. Joining this Convention obviates much of that concern. To the extent it survives, it should be ameliorated by the court’s power under Art. 14.2(d) to choose a forum that can render an enforceable judgment.

#### **Art. 15: Jurisdiction Based on National Law**

This provision is carried over from art. 17 of the 1999 Hague Draft and the comments of Nygh & Pocar apply. Like the Hague Convention, this Convention contemplates a grey area, where courts may exercise jurisdiction, but the parties cannot expect that the judgment will be enforced. Enforcement in these cases will depend on basic principles of comity.

#### **Art. 16: Prohibited Grounds of Jurisdiction**

This proposal adopts most of the prohibited grounds of jurisdiction set out in the 1999 Hague Draft, notably the “doing business” basis, see Art. 16(1)(f). As indicated in the Comment to Art. 3, however, Art. 6.2’s provision for expanded territorial competence, when the infringement impacts in the forum of plaintiff’s residence, should provide many of the general jurisdiction advantages sought by US litigants’ resort to the “doing business” basis of jurisdiction.

This Convention refines one of the Hague prohibited bases by distinguishing tangible from intellectual property, Art. 16.1(a) and (b). With respect to the former, tangible property directly related to an infringement action would include infringing articles, such as pirated books, phonograms, and videos, or counterfeit goods such as false brand name watches. Relevant tangible property can also include the physical means for making the infringing goods or copies,

157. See especially Austin, *supra* note 90, at 42–43.

158. See, e.g., *Itar-Tass Russian News Agency v. Russian Kurier, Inc.*, 153 F.3d 82 (2nd Cir. 1998).

such as computer hardware and media, recording equipment, and other machinery. The kinds of physical devices whose presence in the State may suffice to afford jurisdiction are generally the kinds that courts are empowered to impound or destroy as a remedy in an infringement action.<sup>159</sup>

#### **Art. 17: Authority of the Court Seized**

See the discussion of Art. 5.

#### **Art. 18: Verification of Notice**

As noted earlier in connection with Art. 5, the Convention contains two safeguards of the defendant's right to notice. This article requires the court of origin to, *sua sponte*, stay proceedings until it is established that the defendant received timely and sufficient information about the case to prepare a defense. Because Art. 25.1(c) makes lack of notice a ground for refusing to enforce a judgment, the enforcement court will also examine this issue. Unlike the double-check on jurisdiction in Art. 21.2, the enforcement court is not bound by the factual findings of the court of origin. The court of origin should, however, determine the adequacy of notice under the law of the court of origin.<sup>160</sup>

This provision was carried over from art. 20 of the 1999 Hague Convention and the comments of Nygh & Pocar are fully applicable.<sup>161</sup>

#### **Art. 19: Provisional and Protective Measures**

The time-value of information and the inability to return (or forget) what has been learned makes the availability of preliminary relief particularly important in intellectual property disputes. This provision offers courts a great deal of flexibility in insuring the maintenance of the status quo pending adjudication.

#### **Art. 20: Definition of "Judgment"**

This provision is carried over from art. 23 of the 1999 Hague Draft and the comments in the Nygh & Pocar are applicable.<sup>162</sup> Judgments of all courts of member States are to be enforced, no mat-

159. See, e.g., for US copyright, 17 U.S.C. § 506(b) (forfeiture and destruction), § 509 (seizure and forfeiture); for US trademarks, 15 U.S.C. § 1118 (destruction of infringing articles); see also TRIPs Agreement, *supra* note 2, art. 46 (including in "other remedies" the "authority to order that materials and implements the predominant use of which has been in the creation of the infringing goods be . . . disposed of outside the channels of commerce in such a manner as to minimize the risks of further infringements").

160. There is a proposal to make this explicit in art. 28(1)(d) of the Revised Hague Draft, *supra* note 49.

161. See Nygh & Pocar Report, *supra* note 12, at 82–84.

162. *Id.* at 93–96.

ter whether they are labeled orders, declarations of rights, decrees, or judgments. However, they must resolve cases within the subject matter scope of this Convention. As noted in connection with Arts. 1 and 2, the narrow scope of this Convention could lead to ambiguities on the issue of enforceability. These ambiguities can, however, be resolved at the request of the parties by the court of origin, see Art. 23.1(a). The decision is not subject to reexamination in the enforcement court.

#### **Art. 21: Verification of Jurisdiction**

See the discussion of Art. 5.

#### **Art. 22: Judgments Excluded**

This provision again makes clear that courts may exercise jurisdiction on bases not prohibited by this Convention. However, if the basis is not listed in the Convention, then enforcement is determined by principles of comity. This provision is taken from art. 24 of the 1999 Hague Draft.<sup>163</sup>

#### **Art. 23: Judgments to be Recognized or Enforced**

The comments of the Nygh & Pocar Report, at 96–100, are relevant here as well.

In addition, this proposal stresses the role of the rendering court in declaring that its judgment comes within the scope of the Convention, Art. 23.1(a). Because this Convention endeavors to promote consolidation of territorial claims, notably, by providing for supplemental jurisdiction over claims outside this Convention's subject matter when the claims arise out of the same transaction and occurrence as the intellectual property claim, see Art. 13, courts may be entertaining a variety of "mixed" cases. Where the claim could be characterized as an intellectual property claim or as a contract or other related claim, the characterization may affect the applicability of the recognition and enforcement provisions of this proposal. For example, suppose jurisdiction is asserted on the basis of copyright infringement, although a breach of contract claim has also been pleaded. Under Art. 13, the court would be competent to adjudicate both claims. In the course of the trial, it becomes clear that the dispute is essentially a contract one. The court may retain jurisdiction, but it might choose to decline to declare that its judgment comes within the scope of the Convention, as a contract claim, divorced from infringement action, would not come within the Convention.

163. *See id.* at 96.

**Art. 24: Judgments Not to be Recognized or Enforced**

The provision is the analogue of art. 27 of the 1999 Hague Draft.<sup>164</sup> It represents one of the essential ways in which this Convention is enforced in that it bars courts from enforcing judgments predicated on a basis of a prohibited ground of jurisdiction. Note that the bar applies even if the court of enforcement is in the same jurisdiction as the court of origin.

**Art. 25: Grounds for Refusal of Recognition or Enforcement**

Several of the grounds set forth are traditional and warrant no comment beyond those offered by Nygh and Pocar.<sup>165</sup> Innovations peculiar to this instrument are found in Art. 25.1(a), (b), (d), and (h). In addition, the application to intellectual property cases of the bases set forth in Art. 25.1(e) and (g) deserves commentary.

Art. 25.1(a) and (b) add to the draft Hague Convention's provision for nonrecognition of a judgment when the rendering court should have suspended its proceedings pursuant to the *lis pendens* provision (Art. 12 of this proposal), the further ground of consolidation pursuant to Art. 13. In order to promote the goal of consolidation, it is important not only to facilitate parties' applications to consolidate, but also to discourage continued proceedings in other fora once an action has been consolidated. An effective way to discourage those proceedings is to deny recognition and enforcement to any resulting judgment.

As with subsections 25.1(a) and (b), subsection (d) enforces another provision of the Convention (Art. 4.3) by denying enforcement of a judgment whose jurisdictional basis was created by a nonnegotiated contract that designated a forum lacking a reasonable relationship to the parties and the controversy. Again, the hope is to motivate drafting parties to devise fair agreements.

Art. 25.1(e) permits refusal of recognition or enforcement if "the judgment results from proceedings incompatible with fundamental principles of procedure of the State addressed, including the right of each party to be heard by an impartial and independent court." A question may arise as to whether the unavailability of discovery or of a jury trial in the action would be "incompatible with fundamental principles of procedure of the State addressed" when that State has jury trials. As most States do not afford civil jury trials, it is unlikely

164. *See id.* at 101–03.

165. *See id.* at 103–10 (commenting on art. 28 of 1999 Draft Hague Convention).

that, as a matter of international norms, unavailability of a jury trial would violate fundamental principles. Moreover, even in States where jury trials are common, they may be regarded as necessary only for adjudication in courts where they are expressly required. For example, the Seventh Amendment's jury trial requirement is binding in the courts of the United States (federal courts), but it has never been viewed as binding in state courts.<sup>166</sup> Moreover, issues decided in the absence of a jury may be binding for collateral estoppel purposes, even in the proceedings of courts where a jury trial would have been required on the precluded issue.<sup>167</sup>

The quality of discovery opportunities poses a more difficult problem [, particularly in patent cases,] as there may be substantive provisions of law that rely on a form of discovery available in the jurisdiction whose law is in issue, but not in the jurisdiction where the case is tried. [An example from patent law is a defense of invalidity, where the ground is that the patentee was not the first to invent, 35 U.S.C. § 102(a), and where laboratory notebooks may be a necessary part of the proof.] In some cases, there may be opportunities for assistance from other tribunals, such as under The Hague Convention on the Taking of Evidence Abroad in Civil or Commercial Matters, or pursuant to US federal law.<sup>168</sup> However, where these procedures are not available, and the failure of proof is attributable directly to their absence, the court addressed should consider whether the absence gives rise to a lack of fundamental procedural fairness.

Art. 25.1(g) deals with incompatibility with the public policy of the State of the court addressed. The Nygh & Pocar Report emphasizes that this is intended to describe a narrow category of cases.<sup>169</sup> That observation is even more true of this proposal. This is not to deny that intellectual property raises difficult policy issues: exclusive control over information through copyright protection can violate free speech norms and undermine the political process.<sup>170</sup> For example, the rendering court might prohibit the reproduction of a trademark in the context of a political commentary depicting the

166. See, e.g., GEOFFREY C. HAZARD ET AL., PLEADING AND PROCEDURE, STATE AND FEDERAL 1121 (1999 ed.).

167. A US example is *Parklane Hosiery Co. v. Shore*, 439 U.S. 322 (1979).

168. 28 U.S.C. § 1782 (1994 & Supp. 2000); see generally Hans Smit, *American Assistance to Litigation in Foreign and International Tribunals: Section 1782 of Title 28 of the U.S.C. Revisited*, 25 SYRACUSE J. INT'L L. & COM. 1 (1998).

169. Nygh & Pocar Report, *supra* note 12, at 108–09.

170. See, e.g., Neil Netanel, *Copyright and a Democratic Civil Society*, 106 YALE L.J. 283, 285 (1996).

trademark on a t-shirt. Or it might enjoin the public performance of a song parody. Patent rights have direct impact on health and safety.<sup>171</sup> Both patents and copyright can interfere with scholarly pursuits. Thus, *Qimron v. Shanks*,<sup>172</sup> the Israeli decision holding a rendering of the Dead Sea Scrolls copyrighted, has spawned considerable controversy. This Convention has specific provisions to deal with some of these problems in a structured way, see, e.g., Arts. 25.1(h), 30, and 31. These provisions should be relied on before resorting to subsection (g).

In some cases, the clash between an intellectual property decision rendered by one court and the public policy of another State may occur because the rendering court failed to carefully consider what law ought to apply to the controversy. To the extent this is true, the decision on nonenforcement should be made under subsection (h) of this Article, and not here. The commentary to that subsection sets parameters for determining whether an inappropriate law was utilized and therefore better frames the decision. More important, making nonenforcement turn explicitly on choice of law will encourage courts to protect their decisions by articulating the basis for, and justification of, their choice of law decisions. These opinions will also create a dialogue among courts on how choices of law should be made in an international marketplace.

The impact of intellectual property decisions on the State addressed can also be softened through the remedy provisions of this Convention. Article 30.2(a) permits a court to reduce monetary damages so that the relief does not exceed the level that would have been awarded in the State of the court addressed. In that way, the Convention makes sure that the decision to infringe is not any more expensive than it would have been in the State where enforcement is sought. At the same time, Art. 31.1 allows the court addressed to refuse to enforce an injunctive order when health, safety, or fundamental cultural policies are at stake, so long as a monetary award can be had instead. The approach of turning a property right into a liability rule in cases of fundamental policy has lately been endorsed by the United States Supreme Court.<sup>173</sup> It is particularly appropriate in

171. See, e.g., Arti K. Rai, *The Information Revolution Reaches Pharmaceuticals: Balancing Innovation Incentives, Cost, and Access in the Post-Genomics Era*, 2001 U. ILL. L. REV. 173.

172. C.A. 2760/93, 2811/93, *Eisenman v. Qimron*, 54(3) P.D. 817.

173. See *Campbell v. Acuff-Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994); see also *Abend v. MCA, Inc.*, 863 F.2d 1465, 1479 (1988) (finding “special circumstances” that would cause “great injustice” to defendants and “public injury” were injunction to issue), *aff’d sub nom.*,



an international setting, where cultural differences and levels of technological development are so widely disparate. Together, the remedy provisions make sure that the level at which infringement is deterred—or, the level of noncompliance with intellectual property law—in the State of the court where enforcement is sought is not substantially altered by reason of its joining this Convention.

Given these other avenues for addressing policy concerns, subsection (g) should be reserved for cases where enforcing the judgment would cause extreme-manifest-incompatibility problems. Permitting nonenforcement (or refusing to enforce elements of a judgment, such as an order for injunctive relief) under such conditions could, in fact, be considered of a piece with the TRIPs Agreement, which also contemplates the possibility that a general obligation imposed on all member States could have a disparate impact for certain members. Indeed, the provisions of TRIPs that deal with these situations could be used to elucidate the determination of when a judgment is manifestly incompatible with public policy. For example, art. 27.2 of the TRIPs Agreement permits a State to exclude otherwise patentable subject matter from the scope of protection when “commercial exploitation . . . is necessary to protect *ordre public* or morality, including to protect human, animal or plant life or health or to avoid serious prejudice to the environment.”

Similarly, art. 31(b) contemplates that efforts to obtain authorization for certain usages can be waived in the case of national emergencies or extreme urgency. Finally, all of the major provisions of the Agreement permit limitations that do not unreasonably prejudice the legitimate interests of the rights holder.<sup>174</sup>

Art. 25.1(h) makes choice of law a potential ground for refusal of recognition or enforcement. While this is not a choice of law convention, the forum’s choice of law rules are likely to influence what forum the parties choose. The issue of applicable law would therefore need to be confronted, at least indirectly, at some point. By making arbitrary and unreasonable choice of law a ground for nonrecognition, this Convention aims to supply an incentive to courts to apply reasonable choice of law rules, and to reduce the fear that the territoriality of intellectual property rights will be lost. The text of the draft simply suggests that laws lacking a significant relationship to the con-

Stewart v. Abend, 495 U.S. 207 (1990).

174. See TRIPs Agreement, *supra* note 2, arts. 13, 17, 30; see also WTO, *Draft Declaration on the TRIPs Agreement and Public Health*, *supra* note 96.

trovsky are likely to be deemed unreasonable if applied. To elaborate further, it is possible to identify what might constitute a significant relationship, or its absence. In the case of registered rights, countries other than those in which the right was registered may have a significant relationship to the claim depending on the facts of the case; failure to apply the law of the country in which an intellectual property right was registered should not of itself furnish a ground for nonrecognition of the judgment, except in cases involving nullification of the registered right.

In general, the following are presumptively reasonable choice of law rules in the digital distribution context, which is likely to be the major source of cases under a Convention such as this one; courts that depart from these rules should articulate justifications for departing from them:<sup>175</sup>

1. The law applicable to the entirety of a defendant's alleged Internet infringement is determined as follows:
  - a. If the allegedly infringing content is found on a website, the law of the country in which the operator of the website has its residence or principal place of business, or
  - b. If the allegedly infringing content is not found on a website, such as through file sharing, the law of the country of the residence or principal place of business of the person or entity that initiated the communication.
2. Notwithstanding #1, if a third country is shown to have a more significant relationship with the controversy—for example, if a third country is shown to have been the principal target of the infringing communication—then the law applicable to the entirety of the defendant's alleged Internet infringement is the law of that third country.
3. Notwithstanding ## 1 and 2, if the infringing communication was intentionally directed to a multiplicity of countries, in such a way that the country of initiation lacks a significant relationship to the dispute, but no single third country can be shown to be the principal target, or to have the most significant relationship to the dispute, then the laws of each country to which the commu-

175. These considerations are adapted from Jane C. Ginsburg, *Private International Law Aspects of the Protection of Works and Objects of Related Rights Transmitted Through Digital Networks (2000 Update)*, WIPO Doc. No. WIPO/PIL/01/2 (Dec. 18, 2001).

nication was intentionally directed are applicable to that portion of the infringement occurring within each territory.

4. In fashioning remedies, the court may take into account the extent to which, for particular countries in which acts alleged to be infringements occurred, the domestic law is substantially either more or less protective than the copyright or related rights law chosen in accordance with §§ 1–2.

A further choice of law problem may arise with respect to supplemental claims, including claims about subject matter not within TRIPs. The State with the most significant relationship to those claims will usually be the State(s) whose law(s) govern the main action. This Convention does not attempt to propose choice of law rules for supplemental claims when the State with the most significant relationship is not the same as the State whose law governs the rest of the dispute, but failure to apply a law having some significant relationship to those claims could be a ground for nonrecognition or enforcement of so much of the judgment as concerns those claims, even if the law applied to the infringement claims was not arbitrarily chosen.

#### **Art. 26: Documents to be Produced**

This provision was taken from art. 29 of the 1999 Hague Draft, see Nygh & Pocar Report.<sup>176</sup>

#### **Art. 27: Procedure**

This provision was taken from art. 30 of the 1999 Hague Draft, see Nygh & Pocar Report.<sup>177</sup> The revision of the Hague Draft suggests imposing on the State of enforcement an obligation to provide an appeal of the enforcement decision. A similar approach is under consideration for this Convention, on the theory that there is no court, like the US Supreme Court or the European Court of Justice where decisions under this Convention are otherwise reviewable.

#### **Art. 28: Costs of Proceedings**

This provision was taken from art. 31 of the 1999 Hague Draft, see Nygh & Pocar Report.<sup>178</sup>

#### **Art. 29: Legal Aid**

This provision was taken from art. 32 of the 1999 Hague Draft, see Nygh & Pocar Report.<sup>179</sup>

176. Nygh & Pocar Report, *supra* note 12, at 110–11.

177. *Id.* at 111.

178. *Id.* at 112.

### **Remedies: Arts 30–31**

Reconciling remedies affords one way to address disparities between different member States' substantive norms. This Convention attempts to achieve that goal both through its provisions on damages, and its provisions on injunctive relief. In general, this proposal endeavors to limit the circumstances under which the enforcement court will be obliged to enter a remedy whose scope considerably exceeds the remedies that court would impose in a domestic infringement case. At the same time, however, it is important to acknowledge that judgments entered pursuant to another jurisdiction's appropriately chosen law incorporate the remedies envisioned by that law.<sup>180</sup> Thus, assuming the rendering court's judgment is not to be denied enforcement on the ground that the rendering court effected an unreasonable choice of law (Art. 25.(h)), the enforcement court should normally enter the remedy devised by the rendering court. Several of the provisions of Arts. 30 and 31 recognize and seek to alleviate the tension between the objective of giving effect to the rendering court's judgment and remaining reasonably consistent with the remedial norms of the enforcement jurisdiction.

#### **Art. 30: Damages**

Art. 30.1 provides that the rendering court need not award noncompensatory damages in an amount greater than that which the rendering court would have awarded under domestic law; indeed, if domestic law allows for compensatory damages only, then the rendering court need not enter noncompensatory damages at all. This provision thus is consistent with the goal of accommodating remedial disparities between member States. At the same time, however, it includes a feature that distinguishes this provision from the 1999 Hague Draft on which it was based: compensatory relief that in the US is called "statutory damages," that is, damages that are intended to compensate the plaintiff but without requiring proof of actual damages. These are not considered exemplary or punitive damages, as they are designed to replace income or opportunities lost to infringement. The rendering court typically has considerable discretion to set the award, although the statute may impose a floor and a ceiling. Those States that award statutory damages vest judges with this discretion because they recognize that proving the amount of lost

179. *Id.* There is, however, a suggestion in the revised draft that it be removed.

180. *See, e.g.,* Berne Convention, *supra* note 4, art. 5.2 (stating that substantive infringement standards and remedies are subject to the same law).

sales can be particularly difficult if the defendant has failed (deliberately or otherwise) to keep reliable business records. An enforcement court does not have discretion to decline to enforce an award of statutory damages.

Under Art. 30.2, the enforcement court may, within limits, reduce the amount of damages that must be paid. Subsection 30.2(a) envisions the possibility of reducing a “grossly excessive” award, but only if the judgment creditor has an opportunity to be heard. This subsection contemplates that the award may be considered “grossly excessive” under the law of the rendering jurisdiction as well. Subsection 30.2(b) limits the enforcement court’s damage-reduction authority by imposing two floors: that of the enforcement jurisdiction, and that of the rendering jurisdiction. Thus, for example, if both jurisdictions calculate damages based on lost sales, but the enforcement jurisdiction deducts overhead from the lost sales figure, while the rendering jurisdiction does not, the enforcement jurisdiction must enter the award based on the rendering jurisdiction’s calculation.

#### **Art. 31: Injunctions**

This article allows the enforcement court to decline to enter injunctive relief under certain well-recognized circumstances, such as conflict with fundamental public policies, so long as “damages would afford an effective remedy” for the enforcement court’s territory. While injunctions typically afford the most basic relief in intellectual property cases, courts, particularly in the US, have recognized circumstances in which the public interest may be better served by permitting dissemination of the infringing work, while requiring payment to the rightholder.<sup>181</sup>

Because tensions between injunctive relief and domestic substantive or remedial norms may be present, yet may not, in a given case, be so pronounced as to call into play Art. 31.1’s public policy exceptions, Art 31.2 refers to the international intellectual property minimum standards set forth in the TRIPs Agreement as an additional guide to a rendering court’s determination to enter an injunction which would not have been imposed in a purely domestic dispute. Art. 31.2 allows, but does not oblige, the rendering court to decline to impose injunctive relief in circumstances in which local norms do not permit, and the TRIPs minima do not require, this remedy. In that

181. See, e.g., *Campbell v. Acuff Rose Music, Inc.*, 510 U.S. 569, 578 n.10 (1994); *N.Y. Times Co. v. Tasini*, 533 U.S. 483, 505 (2001).

event, however, the enforcement court must afford compensatory relief.

### **Art. 32: Severability**

This provision was taken from art. 34 of the 1999 Hague Draft, see Nygh & Pocar Report.<sup>182</sup>

### **Art. 33: Authentic Instruments**

This provision was taken from art. 35 of the 1999 Hague Draft, see Nygh & Pocar Report.<sup>183</sup>

### **Art. 34: Settlements**

This provision was taken from art. 36 of the 1999 Hague Draft, see Nygh & Pocar Report.<sup>184</sup>

### *Addendum to Commentary on Draft Convention on Jurisdiction and Judgments in Intellectual Property Cases*

To appreciate how the draft Convention's proposals would work in practice, it may be useful to apply them to a hypothetical multi-territorial copyright dispute, based on an actual case recently filed in the Central District of California, *Metro-Goldwyn-Mayer, Inc. v. Grokster, Ltd.*<sup>185</sup> In *Grokster*, a Dutch enterprise, Consumer Empowerment ("CE"), produced, licensed, and distributed the "FastTrack" file sharing software, as part of an enterprise allegedly destined to become the "next Napster." CE operates the KaZaA website, located in the Netherlands. It has licensed the FastTrack program to MusicCity, whose website is located in the US, and to Grokster, whose website is located in Nevis, a thirty-six-square-mile island in the West Indies. The three websites carry advertising. They also make the FastTrack program available to subscribers so that sub-

182. Nygh & Pocar Report, *supra* note 12, at 116.

183. *Id.* at 116-17.

184. *Id.* at 117-18.

185. No. 01-08541(SVW) (PJWx) (C.D. Cal. filed Oct. 2, 2001, Mot. to Dismiss denied Mar. 4, 2002). KaZaA B.V., one of the defendants in the *Grokster* case, is also involved in a similar lawsuit in the Netherlands, where an appellate court recently overturned the trial court and ruled that KaZaA was not liable for infringement because it was not responsible for the illegal acts of third parties using its software. See John Borland, *Ruling Bolsters File-Traders' Prospects*, CNET News.Com, Mar. 28, 2002, at <http://news.com.com/2100-1023-870396.html> (reporting on appellate decision); see also Andrea L. Foster, *Dutch Court Orders Halt to Swapping of Copyright-Protected Files on KaZaA*, CHRON. HIGHER EDUC., Nov. 30, 2001, available at <http://chronicle.com/free/2001/11/2001113001t.htm> (reporting on trial court ruling). An unofficial translation of the Amsterdam Court of Appeals decision is available at [http://www.steptoe.com/webdoc.nsf/Files/196e/\\$file/196e.pdf](http://www.steptoe.com/webdoc.nsf/Files/196e/$file/196e.pdf) (last visited June 17, 2002).

scribers can exchange files of all kinds, not simply MP3 audio files, the kind of files at issue in *Napster*.

Unlike *Napster*, whose website carried a centralized directory of titles currently available from all *Napster* users currently online, the *MusicCity*, *KaZaA*, and *Grokster* websites do not centralize the information that permits users to locate and copy available files. Rather, this information is distributed across “super nodes,” computers participating in the *MusicCity*, *KaZaA*, and *Grokster* networks, whose speed and storage capacity make them desirable hosts of the directory information. Owners and operators of “super node” computers do not necessarily know that their computers are being used for this purpose. Subscribers to any one of the *MusicCity*, *KaZaA*, or *Grokster* services can access files belonging to subscribers to any of the other services, as well as to the same service. Although the three services operate websites that reside on servers in particular territories, the services appear to accept subscribers from any location. Thus, a US user might subscribe to the Dutch *KaZaA* service, and through that service acquire access to not only files residing on computers belonging to subscribers to the *KaZaA* service, but also to those belonging to subscribers to the US *MusicCity* service and to the *Nevis Grokster* service. In order to acquire those files, the subscriber’s information location inquiry may pass through computers located throughout the world, whose owners or operators may subscribe to any one of the three services.

The lawsuit asserts the liability for contributory copyright infringement by the three services, as well as their vicarious liability for subscribers’ infringements. The US, the Netherlands, and *Nevis* are all members of the WTO. Assume they have joined this Convention. Applying the criteria of this draft Convention, all three services are amenable to jurisdiction in the US. Moreover, the US is the only forum in which all territorial claims against all three defendants could be asserted.

*MusicCity* is subject to a US court’s jurisdiction on the basis of Art. 3, as the US is that defendant’s residence. The court’s jurisdiction would be general, entitling the court to hear infringement claims arising both within and without the territorial US. *Grokster* is amenable to jurisdiction on the basis of Art. 6.2, intentionally directing the communication to the US. The siting of *Grokster* in tiny *Nevis* appears pretextual, a resort to a “copyright haven” from which to target subscribers in other countries, particularly the US, as the US is

likely to afford the largest market for Grokster's services. Under Art. 6.2, when the basis of jurisdiction is targeting, and the plaintiff's residence is the forum, the forum is competent to hear not only claims arising in the forum's territory, but worldwide. CE would be amenable to suit in the US on the basis of Art. 6.2 with respect to its activities worldwide, if CE is found to be targeting. But CE may plausibly claim a substantial home audience in the Netherlands or the European Community, to which its services are at least as "intentionally directed," if not more so. Even if it is not targeting the US, however, CE would remain subject to jurisdiction on the basis of Art. 6.3, because the infringements are foreseeable in the US, and CE has taken no steps to exclude US subscribers. In this case, the US forum would not, however, have jurisdiction over CE with respect to acts occurring outside the US.

Nonetheless, Art. 10 might enable the US court to broaden the territorial scope of its jurisdiction over CE. When one of multiple defendants is habitually resident in the forum, Art. 10 permits proceeding against nonresident defendants if "the claims against the defendant habitually resident in that State and the other defendants are so closely connected that they should be adjudicated together to avoid a risk of inconsistent judgments," and "as between the States in which the other defendants are habitually resident, and the forum, the forum is the most closely related to the entire dispute, and there is no other forum in which the entire dispute could be adjudicated." As the ensuing discussion will show, there is no other forum in which the entire dispute can be adjudicated. Would inconsistent judgments result were the US court to adjudicate all claims except those involving CE's conduct outside the US, and another court to adjudicate those claims? If the other court, for example, a Dutch court, refrained from adjudicating the US claims, the judgments might at first appear to pose no risk of inconsistency. But the judgments might nonetheless conflict if the US court enjoined CE's transmissions to US subscribers or availment of US super nodes, but the Dutch court ruled CE's Netherlands-based conduct appropriate. In that instance, the implementation of the US court's remedy in Holland might be prejudiced, if not blocked. It would be preferable to work through the territorial implications of the decision in a single action, rather than in the piecemeal manner that fragmentation between US and Dutch fora would produce.



Thus, under this analysis, all three defendants can be sued in the US with respect to the full territorial extent of the copyright owners' claims, at least if the two foreign defendants are found to have "intentionally directed" their activities toward the US. Moreover, no other court would be competent to adjudicate this range of claims; there would be no reason to consolidate elsewhere, pursuant to Art. 13, nor for the US court to decline jurisdiction pursuant to Art. 14. The Netherlands and Nevis courts would have jurisdiction over at least part of the action, but not over all of it. The US and Nevis services would be amenable to suit in the Netherlands, because subscriptions to their services are available to Dutch users. Moreover, even Dutch users of the KaZaA service obtain the use and benefits of connections to the files of MusicCity and Grokster subscribers, thanks to the network of super nodes put in place by the common FastTrack software. Thus, one can infer that some allegedly infringing activity is occurring in the Netherlands, that this activity is foreseeable, and that neither MusicCity nor Grokster have endeavored to keep out Dutch users. The same analysis may be made with respect to CE's and MusicCity's amenability to suit in Nevis. This would make the nonresident services subject to suit in the Netherlands and Nevis, on the basis of Art. 6.3. But this article limits the territorial competence of the forum to infringing acts occurring or impacting in the forum. Thus, unless there is some basis for broader judicial competence, for example, under Art. 10, neither a Netherlands nor a Nevis court could hear the full territorial extent of the claim. As plaintiffs reside in neither forum, that basis for extension of competence under Art. 6.2 is lacking. Moreover, under Art. 6.2, the size and population of Nevis make it unlikely for the intentional direction of infringing files. The Netherlands is a more significant market, but any contention that it is the economic center of gravity for the activities of the Nevis and US plaintiffs seems unpersuasive. See Art. 14.3(b).

With respect to choice of law, under the criteria suggested in the commentary to Art. 25(h), the laws of each of the defendant's principal places of business (US, NL, Nevis) could reasonably apply to determine each defendant's liability.<sup>186</sup> But Art. 25(h) also recognizes

186. Because this hypothetical concerns a claim alleging secondary liability, an initial question might be whether the forum should take account of the law(s) applicable to the primary infringements, or merely of the law(s) applicable to the services that facilitate or benefit from those infringements. Arguably, there can be no secondary liability unless the direct actors have themselves committed wrongful acts. As the lawfulness of their acts would be determined according to the laws of the countries in which they acted, the laws applicable to the services who facilitate or benefit from their acts should be the same. Putting aside the complicating

that another country's law may have a more significant relationship to the litigation, for example, when another country "is shown to have been the principal target of the infringing communication." In that event, "the law applicable to the entirety of the defendant's alleged Internet infringement is the law of that third country." In the *Grokster* hypothetical, this would mean that US law could apply to the entirety of the claim against Grokster.

By contrast, with respect to the claim against CE, if the court's competence is limited to claims alleging infringement in the US, US law would certainly apply. If instead, the US court has jurisdiction over the full territorial scope of the claim under Art. 6.2 or Art. 10, US law would not appropriately apply to the entirety of the claim, as US subscribers, while certainly a target of CE's activities, may not constitute the "principal target." But given the intentional direction of CE's services to subscribers in other countries, if CE's extraterritorial activities outweigh its domestic Dutch market, it would not be unreasonable under Art. 25 to apply the laws of the various countries in which CE has subscribers. See criterion #3.

Finally, with respect to all the defendants, even if the court chooses a single national law to apply to each defendant's activities (US law with respect to MusicCity and Grokster; Dutch law with respect to CE), criterion #4 allows the court, in fashioning remedies, to "take into account the extent to which, for particular countries in which acts alleged to be infringements occurred, the domestic law is substantially either more or less protective" than the otherwise applicable law. This could affect the court's calculation of damages, or the scope of the injunction it issues.

factor of secondary liability, under the criteria suggested in the commentary to Art. 25(h), a starting point is likely to be the laws of the services' residences. Under criterion 1(a), "If the allegedly infringing content is found on a website, the [applicable law is the] law of the country in which the operator of the website has its residence or principal place of business." Criterion 1(b) provides: "If the allegedly infringing content is not found on a website, such as through file sharing, the [applicable law is the] law of the country of the residence or principal place of business of the person or entity that initiated the communication." Although the *Grokster* litigation concerns file sharing, one might contend that the entities that initiated the communications are those that distributed the file sharing software and control the network through which the file searches are made.

