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## International Law Association's Guidelines on Intellectual Property and Private International Law ("Kyoto Guidelines"): Applicable Law

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# International Law Association's Guidelines on Intellectual Property and Private International Law ("Kyoto Guidelines"): Applicable Law

by Marie-Elodie Ancel, Nicolas Binctin, Josef Drexl, Mireille van Eechoud, Jane C Ginsburg, Toshiyuki Kono, Gyooho Lee, Rita Matulionyte, Edouard Treppoz, Dário Moura Vicente

**Abstract:** The chapter "Applicable Law" of the International Law Association's Guidelines on Intellectual Property and Private International Law ("Kyoto Guidelines") provides principles on the choice of law in international intellectual property matters. The Guidelines confirm the traditional principle of the *lex loci protectionis* for the existence, transferability, scope and infringement of intellectual property rights. The law applicable to the initial ownership of

registered rights is governed by the *lex loci protectionis* whereas the law of the closest connection is applied to determine the ownership of copyright. For contracts, freedom of choice is acknowledged. With regard to ubiquitous or multi-state infringement and collective rights management in the field of copyright, the Guidelines suggest innovative solutions. Finally, the chapter contains a Guideline on the law applicable to the arbitrability of disputes.

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## A. General Rules

### 19. Existence, Scope and Transferability (*lex loci protectionis*)

**The law applicable to determine the existence, validity, registration, duration, transferability, and scope of an intellectual property right, and all other matters concerning the right as such, is the law of the State for which protection is sought.**

See as reference provisions

§§ 301, 314 ALI Principles

Arts 3:102, 3:301 CLIP Principles

Art 305 Transparency Proposal

Arts 301, 309 Joint Korean-Japanese Principles

### Short comments

- 1 The Guideline makes "matters concerning the right as such" subject to the law of the "State for which the protection is sought" (*lex loci protectionis*). This approach is in line with the traditional approach and reflects the idea that intellectual property rights are the outcome of policy choices of States. "State for which the protection is sought" should be distinguished from *lex fori* and is usually understood in terms of rights which require its registration in each jurisdiction such as patent and trademark as the State of registration. For other rights, which do not arise from registration, for instance copyright, the *lex loci protectionis* refers to the law of the State which recognizes the right.

- 2 The Guidelines distinguish proprietary aspects of an intellectual property right from its contractual arrangements. This paragraph applies the law of the State for which protection is sought (*lex loci protectionis*) to the proprietary aspects, which typically include existence, validity, duration and scope. “Existence” of an intellectual property right means that the right is recognized as an exclusive right in a State. “Registration” as a requirement of the existence and the validity of certain types of intellectual property rights includes its procedural aspects. The “scope” concerns to what extent the protection of an intellectual property right reaches, typically, for instance, whether moral right, mere use, exhaustion, or remuneration right is a part of the right, and naturally also covers the limits and exceptions of the protection. “Transferability” of an intellectual property right could be placed in an independent provision, since it concerns a dynamic aspect of right, while others concern static aspects of proprietary right. However, the Guideline clarifies its stance to place both aspects in one provision by stating that “all other matters concerning the right as such”.

#### **Extended comments**

##### **Hypothetical 1**

A, resident in State X, holds a patent registered in State Y. A believes that B, a company which was incorporated and has its headquarters in State X, infringes A’s patent in State Y. A sues B in State X, the place of defendant’s domicile, for compensation. B argues that A’s patent in State Y is invalid. The court of State X should apply the law of State Y to render a judgment (as for the jurisdiction of the court in State X, see Guideline 11(2)).

##### **Hypothetical 2**

A, composer living in State X, signs a contract with B, an opera company in State Y, to create a new production of an opera composed by A. The license contract contains a choice of court clause (State X as agreed forum State), but no choice of law clause. On the first night, A realizes that in this new production, the ending scene of the opera is differently staged from his original idea, while the musical part was not changed. A sues B in State X for compensation and injunction restraining B from performing infringing acts in State Y. The copyright law of State Y should be applied to the question if such a staging would infringe A’s copyright.

#### ***Lex loci protectionis***

- 3 The Guideline reflects the approach that the intellectual property rights are the outcome of policy choices of States. Traditionally, industrial and cultural policies represent policy decisions, but under the regime of TRIPS, commercial or trade policies could be a part of them as well.
- 4 The language “State for which the protection is sought” is carefully chosen, especially to distinguish it from the “State where the protection sought” in Article 5(2) of the Berne Convention, as there is a scholarly debate if “State where the protection sought” in the Convention would mean the principle of choice of law. Also, the language of the Berne Convention could be interpreted as referring to the *lex fori*. By contrast, “State for which the protection is sought” has also been adopted in Article 8 of the Rome II Regulation.
- 5 How to identify the “State for which the protection is sought”? If the right holder of a patent seeks protection of his/her patent in the territory of State A, the law of State A is *lex loci protectionis*. However, if his/her invention is not registered in State A, there is no legal basis at the level of substantive patent law to protect the claimant. In the Card Reader Case<sup>1</sup>, the Japanese Supreme Court chose US patent law as the law applicable to an injunction, but then rejected to apply it, as extra-territorial application of US-patent law would violate public policy (the territoriality principle) in Japan. The Supreme Court did not use the term *lex loci protectionis* in its judgment. If this Guideline would have been applied, Japanese law should have been identified as *lex loci protectionis*, as the right holder wanted to protect his patent in the territory of Japan. But his patent was not registered in Japan, hence he could not get any legal protection. Although this result is the same as the judgment of the Japanese Supreme Court, the way to conclusion is different.
- 6 For other rights, which do not arise from registration, the *lex loci protectionis* refers to the law of the State which recognizes the right concerned. In legal practice the claimant should identify for which States he wants to protect his rights, when he formulates his claims. Therefore, *lex loci protectionis* usually corresponds to the market where the right holder seeks protection.

#### **Definitions**

- 7 The Guidelines distinguish proprietary aspects of an intellectual property right from contractual arrangements. The latter is covered by Guidelines 21 and 22, while this Guideline deals with proprietary aspects of an intellectual property right.
- 8 “Existence” of an intellectual property right means that the right is recognized as an exclusive right in a

<sup>1</sup> Japanese Supreme Court, Hanrei Taimuzu, No. 1107, [2002], p. 80.

State. The issue of “validity” is a separate issue from the existence. A right recognized as an exclusive right may be challenged by certain stakeholders. Issues such as who could do so, and under what conditions fall under the issue of the validity. “Registration”, as a requirement of the existence and the validity of certain types of intellectual property rights, includes not only substantial requirements, but also procedural aspects as well as appeal procedures in case of refusal. The “scope” concerns to what extent the protection of an intellectual property right reaches. Accordingly, exceptions and limitations of intellectual property rights are covered by this Guideline. For instance, if and to what extent exhaustion is recognized; if and under what conditions compulsory license<sup>2</sup> of patents is allowed; if there are general exceptions of copyright protection such as fair use.<sup>3</sup>

- 9 “Transferability” of an intellectual property right should be separated from contractual arrangements. Since transferability is an attribute of an intellectual property right as proprietary right, while a contract sets up the framework and detailed conditions of the transfer of the intellectual property right. Transferability implies that the link of the right to personality aspect is marginal. The Guideline clarifies its holistic stance toward proprietary aspects of an intellectual property right by stating that “all other matters concerning the right as such”.

*Toshiyuki Kono*

## 20. Initial Ownership and Allocation of Rights

**(1) (a) Initial ownership in registered intellectual property rights, unregistered trademarks and unregistered designs is governed by the law of the State for which protection is sought.**

**(b) In the framework of a contractual relationship, in particular an employment contract or a research and development contract, the law applicable to the right to claim a registered intellectual property right is determined in accordance with Guidelines 21 to 23.**

**(2) (a) Initial ownership in copyright is governed by the law of the State with the closest connection to the creation of the work. This is presumed to be the State in which the person who created the subject-matter was habitually resident at the time of creation. If the protected subject-matter is created by more than one person, they may choose the law of one of the States of their habitual residence as the law governing initial**

**ownership. This paragraph applies mutatis mutandis to related rights.**

**(b) If the underlying policy of the law of the State for which protection is sought so requires even in international situations, the allocation of rights which cannot be transferred or waived is governed by the law of that State.**

### See as reference provisions

§§ 311-313 ALI Principles

Arts 3:201, 3:401-402, 3:503 CLIP Principles

Art 305 Transparency Proposal

Art 308 Joint Korean-Japanese Principles

### Short comments

- 10 For industrial property the Guidelines follow the main territoriality based rule. In case of rights for which registration is a constitutive factor, the State for which protection is sought is the State where the right is (to be) registered. The same applies to industrial property rights that do not require registration, such as unregistered design rights.
- 11 Especially in case of employee made inventions or designs, domestic laws often contain rules on who (employee or employer) is entitled to claim ownership of industrial property resulting from labour, that is, who is entitled to file a registration. Similar rules exist for designs and other industrial property created under commission. Such rules in effect address the relative position of parties that are in a contractual relationship (employer and employee, commissioning and commissioned party). The principle of party autonomy is recognized as a basic principle for contractual relations in these Guidelines, and this is reflected in clause 1(b). It provides for accessory allocation to the law that governs a prior contractual relationship, for example an employment contract.
- 12 Clause 2(a) leads to identification of a single applicable law to initial ownership of copyright, but its approach also applies to performer’s rights, phonogram producer’s rights and similar unregistered related rights. All such rights arise as a matter of law, in many States simultaneously. There is therefore no easy way for parties to establish who the owners are. The connecting factor used is the law most closely connected to the creation. To promote predictability as to the applicable law, the presumption of clause 2(a) is that the place of habitual residence of the actual “creator” (performer, producer) has the closest connection. It is in that jurisdiction that creation will typically take place. Many works, performances and other protected subject-matter result from a collaborative effort. If those engaged are habitually resident in different jurisdictions, the principal rule can be difficult to

<sup>2</sup> Article 31 TRIPS.

<sup>3</sup> § 107 Title 17 of the United States Code.

apply. The Guidelines therefore allow co-creators to choose the applicable law, for instance because they prefer legal certainty upfront.

- 13 The single law approach can result in ownership of rights being denied to parties which under domestic law would qualify as initial owner (e.g. a person making a minor creative contribution to a work, or an employee). Especially where rights of authors and performers are not transferable or cannot be waived in the first place, this outcome may be unpalatable for a State. If the policies underlying the domestic intellectual property rules on transferability or waiver are deemed crucial to uphold in international cases, clause 2(b) allows for the territorially limited application of the *lex protectionis* to initial ownership.

#### Extended comments

##### **Hypothetical 1**

Company A concentrates the design of its clothing lines in State Z, and files applications for designs in all States where it markets its products. The design law of State Z provides that in case designs are created by employees, the rights are vested with the actual designer (natural person), unless otherwise agreed. A's chief designer B claims that under the laws of Z she is entitled to all design rights. It follows from Guideline 20(1)(a) that one must look to all the laws of the States where design applications are filed to determine which party has acquired the territorially distinct rights involved. Note however that the right to claim title to an intellectual property right should be distinguished from actual (initial) ownership of the intellectual property right itself. In Hypothetical 1 above, whether chief designer B or any of the other employees involved in the creation of the design in State Z are entitled to claim a right to file for design rights in Z and elsewhere, depends on the law applicable to the employment contract(s) under Guideline 29(1)(b). If the law applicable to the contract is not the law of the State where he/she is habitually resident, the employee may still invoke mandatory provisions of that law to secure a claim to register as owner.

##### **Hypothetical 2**

An international videogame publisher established in Y engages freelance game developers to contribute to a videogame. Most developers work and live in State Y, but a number work from and are resident in States X and W. The law of State Y in this case may be most closely connected to the creation, so that law will govern the question whether the developers from Y, X, and W qualify as (co-)authors of the videogame. The developers may also agree to have their respective positions governed by the laws of X or W.

#### **Single law for copyright and related rights**

- 14 In case of industrial property, the grant of a registered right is intimately connected to a jurisdiction's specific procedures and intellectual property institutions. What is more, who is the initial owner of the rights can be inferred from the relevant official registers. Copyright and related rights arise by operation of law, simultaneously in a large number of States. Applying the *lex protectionis* to ownership of copyright and related rights, thus produces legal uncertainty as to the chain of title. To date the *lex protectionis* for matters of initial ownership is the more common approach,<sup>4</sup> but a single law approach exists in various States.<sup>5</sup> A single applicable law promotes legal certainty. This has the added advantage that it lowers transaction costs for parties seeking to acquire intellectual property rights or licenses. It also positively influences the value of intellectual property rights as assets because legal uncertainty about title may reduce the economic value of intellectual property rights. For these reasons the Guidelines establish a single governing law for initial ownership of copyright and related rights. The default connecting factor is the place with the closest connection to the creation of protected subject-matter.<sup>6</sup> The reference is to

4 See French Court of Cassation, 10 April 2013, ECLI:FR:CCAS:2013:C100347 – *Fabrice X v. ABC News Intercontinental*; German Supreme Court, Case I ZR 88/95, 2 October 1997, GRUR 1999, 152, 153 *et seq.* – *Spielbankaffaire*; and for Korea Seoul High Court, Case No 2007Na0093, 8 July 2008, reported in Ghyohoo Lee, Choice of Law, in S. Wolk, & K. Szkalej (Eds.), *Employees' Intellectual Property Rights* (AIPPI Law Series). Alphen aan den Rijn Netherlands: Kluwer Law International. Note however that the Korean Private international law act (Article 24) only provides that infringement of rights is governed by the law of the place of infringement. The High Court has extended the scope of Article 24 to (initial) ownership. However, in a case on allocation of rights by operation of law (i.e. the grant of a license by operation of law to employer for employee created works) the Korean Supreme Court later opted for accessory allocation to the law governing the employment contract: Korean Supreme Court, Case No. 2012 Ds 4763, 15 January 2015.

5 See for example for Portugal Article 48 Civil Code (private international law section); for the US United States Court of Appeals, *Itar-Tass* (153 F.3d 82 (2<sup>nd</sup> Cir. 1998) and its progeny, including United States Court of Appeals, *Alameda Films v. Authors Rights Restorat*, 331 F.3d 472 (5<sup>th</sup> Cir. 2003); United States Court of Appeals, *Laparade v. Ivanova*, 387 F.3d 1099 (9<sup>th</sup> Cir. 2004). Compare also Article 1256 of the Civil Code of the Russian Federation.

6 For comparison: Both the Joint Korean-Japanese Principles and the ALI Principles contain special rules aimed at identifying a single applicable law for copyright and related

domestic (intellectual property) law, excluding rules of private international law (see also Guideline 30, no renvoi).

#### **Place of creation**

- 15 The place of creation refers to the place where the intellectual and organizational effort is made to produce the intangible subject-matter. Often this will coincide with the place where a work is first published or its fixation or physical embodiment is produced. Note however that the place where physical copies are made (e.g. a print run of books, production of clothing after a protected design) is not necessarily the place of creation of the (intangible) subject-matter.

#### **Application to related rights**

- 16 To keep the wording of the Guideline simple, Article 2(a) uses terminology suited to copyrighted subject-matter. The last sentence stresses that the same single-law rule governs so-called related or neighboring rights. The closest connection is to the place of first performance for performer's rights, and to the place of production (and investment) for rights in phonograms, broadcasts and (first fixations of) films. Here too, the presumption is that the habitual residence of the (legal) person(s) engaged in the production or performance normally best represents the closest connection.
- 17 Equivalent factors can be applied for (so far) less universally recognized related rights, e.g. in traditional cultural expressions, databases, sports events, or press publications. As is the case with the term "creation" for copyright works, "production" should not be read as being equal to the place where physical copies are made.

#### **Temporal aspects**

- 18 In many cases, authors and performers will have stable habitual residences in one jurisdiction. But when they do relocate to another State, the Guidelines clarify that the relevant habitual residence is the one at the time of creation (as opposed to for example residence at the time when a dispute arises over initial ownership). A change of residence may occur during production.

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rights. These rules are drafted as cascading rules, with the habitual residence of the creator(s) and the law chosen by co-creators as important connecting factors. ALI Principles has more rules more broadly for non-registered rights such as neighboring rights of performers and (in a separate rule) unregistered trademarks. The CLIP Principles also depart from a multiple-governing law approach. The CLIP Principles have important modifications to accommodate work for hire and employment situations.

In keeping with the principle of the closest connection, what matters is the residence with the overall stronger relationship.

#### **Escape clause 21(2)b**

- 19 Transferability of intellectual property is governed by Guideline 19, the *lex loci protectionis*. In some jurisdictions copyright is not transferable as a matter of principle. In other States certain rights cannot be waived. Examples are the author's moral right to resist mutilation of her work (*cf.* Article 6<sup>bis</sup> Berne Convention) and remuneration rights for certain acts of exploitation. Such rules are usually intimately connected to the protection of persons that the domestic law regards as "natural" first owners. Application of a foreign law as the law of the habitual residence of the creator, might result in the designation of a different party as author than domestic law would. So indirectly the domestic law on transferability is bypassed. If domestic rules on initial ownership of untransferable or unwaivable rights are of an *overriding* mandatory nature, they may be still be applied for local rights. Note that this provision does not cover issues that may be characterized more readily as contract law than property law. In some States for example, a right of the author to terminate an exploitation contract, or a right to seek additional compensation in case of unexpected commercial success will be characterized as contractual.
- 20 The fact that rules on transferability or waivability are mandatory under local law is not in and of itself enough to trigger clause b), this is what the wording "even in international situations" expresses. Black letter law may not explicitly address the question of whether rules on initial ownership of rights that cannot be transferred or waived claim application in international cases, hence the reference to underlying policy.

*Mireille van Eechoud*

## **B. Contracts**

### **21. Freedom of Choice**

1. **Parties may choose the law governing their contractual relationship.**
2. **Such a choice of law shall not, however, have the result of depriving the creator or performer of the protection afforded to him/her by the provisions that cannot be derogated from by agreement under the law that, in the absence of choice, would have**

been applicable pursuant to Guideline 22.

**See as reference provisions**

§ 315 (1) ALI Principles

Art 3:501 CLIP Principles

Art 306(2) Transparency Proposal

**Short comments**

- 21 Guideline 21 applies to contracts concerning intellectual property rights the generally accepted principle that the parties to a contract may choose the law that governs the substance of their agreement (*lex contractus*). Also known as “party autonomy”, the parties’ freedom to choose the law governing their contractual relationships embodies the considerable trust that contemporary private international law places in contracting parties involved in international situations. As a principle, they are considered to have the highest capacity and legitimacy to solve conflict of laws regarding their contracts. For instance, the Guideline’s absence of geographic specification or limitation means that the parties may choose any law; that law need not be the *lex loci protectionis*.
- 22 Without prejudice to the application of general mandatory rules or the *ordre public* exception, (Guidelines 28 and 29), the freedom of choice set out in paragraph 1 of Guideline 21 nonetheless encounters the particular limitation formulated in paragraph 2. To the extent that the law that would have applied in the absence of the parties’ choice (the *lex contractus* identified in Guideline 22) includes mandatory rules which afford greater protection to the author or performer than provided by the law chosen by the parties, these more protective provisions shall govern. Paragraph 2 thus requires comparing two sets of rules: the rules imposed by the law the parties chose, and the rules of the objectively applicable law (pursuant to Guideline 22), in order to guarantee to the author or performer the benefit of the rules that best protect their interests. This comparative technique is directly inspired by the Rome I Regulation, which employs it in the context of contracts between professionals and consumers, and in the context of employment contracts (as for when the latter concern intellectual property, see Guideline 23). In the same fashion, Guideline 21 treats the author and the performer as the “weaker parties” who should receive special protection.

**Extended comments**

**Hypothetical 1**

A grants B the patents he holds for States X, Y and Z. The contract provides that contract issues will be subject to the law of State W.

**Hypothetical 2**

A is a novelist who resides in State X. He signed a publishing contract with a publisher also established in State X for distribution of the novel in several X-speaking States. The contract states that it is governed by the law of State W (a non-X-speaking State). To the extent that the contract presents a closer nexus with State X (on the basis of Guideline 22), the choice of the law of State W cannot deprive the author of the benefit of the more protective rules in force in State X.

**Choice of law agreement**

- 23 Guideline 21 articulates choice of law in light of the other Guidelines. For instance Guideline 30 excludes *renvoi*, which means that the substantive rules of the law chosen by the parties apply, rather than that State’s choice of law rules.
- 24 Guideline 21 does not take a position on whether the parties may choose as the applicable “law” an ensemble of non-state-based private ordering norms.<sup>7</sup> It is clear, however, that whether the source of law derives from public norms or private ordering, Guideline 21(2) requires the application of the mandatory author-protective rules of the State whose law Guideline 22 designates.

**Scope of the chosen law**

- 25 The law chosen by the parties governs only the contractual aspects of their relationship. For example, it is competent to determine whether the parties validly consented to enter into the contract, as well as the content of the contract, to specify which contractual obligations were undertaken. As such, general rules of interpretation are governed by the *lex contractus*. Furthermore, the law chosen by the parties shall fix the remedies in the event of failure to execute the contract.
- 26 By contrast, the law the parties designate cannot render an intellectual property right transferable if, under the law for which the rights are granted (the *lex loci protectionis*), the right is inalienable. Nonetheless, the law that governs the contract can provide that contractual clauses exclude certain rights (which under the *lex loci protectionis* could have been transferred) from the scope of the transfer.<sup>8</sup>
- 27 For other issues, it may be difficult to determine

<sup>7</sup> See for instance the UNIDROIT Principles of International Contracts, 2016.

<sup>8</sup> *Creazioni Artistiche Musicali, S. R. L. v. Carlin Am., Inc.*, 2016 U.S. Dist. LEXIS 180431 (S.D.N.Y. Dec. 30 2016), *aff’d.*, 747 Fed. Appx. 3 (2<sup>nd</sup> Cir. August 23 2018).



whether they are subject to the law chosen by the parties (the *lex contractus*) or instead the *lex loci protectionis* or even the *lex fori*. For example, if a licensee exceeds the scope of the license and engages in unauthorized acts of exploitation of a work, should those exploitations be considered copyright infringements governed by the *lex loci protectionis*, or a breach of contract, governed by the *lex contractus*?<sup>9</sup> In fact, both the *lex contractus* and the *lex loci protectionis* should apply, sequentially: the *lex contractus* to determine whether the licensee has breached the contract by exceeding its scope, and if so, then the *lex loci protectionis* to determine the extent of the infringement.

- 28 When State law ties ownership of an exclusive right under copyright to standing to sue for infringement, as is the case in the US, one may also inquire on what grounds such a rule should apply. It is submitted that such a rule must be part of the *lex loci protectionis* (and not of the *lex fori*).<sup>10</sup> Nonetheless, in the case of a licensee, it becomes necessary to apply the *lex contractus* in order to verify whether or not exclusive rights were granted to him or her.

#### **Mandatory protective provisions**

- 29 Some States protect the interests of creators and performers through rules which impose particular provisions or which give creators and performers rights against the other contracting parties. For example, rules which require in a mandatory fashion that ambiguities be interpreted restrictively in favor of authors and performers<sup>11</sup>, or which impose proportional or just and equitable remuneration for each mode of exploitation, or which require an upward revision of the remuneration if the work encounters unexpected success (so-called “best seller clauses”<sup>12</sup>, or which prohibit the grant of rights

in modes of exploitation unknown at the time of the contract’s conclusion. State laws may also allow the author or performer to terminate the contract if the grantee does not exploit the work, or after a certain interval even if the work has been exploited (*reversion right*).

- 30 The legal status of these measures may not always rise to that of overriding mandatory rules (within the meaning of Guideline 29), and even if they are as a matter of domestic law, Guideline 29(2) does not require the judge in the forum State to apply foreign mandatory rules. In order to protect the interests of authors and performers at the international level, Guideline 21(2) reduces the complications of characterization and guarantees the respect due to mandatory rules so long as they emanate from the State whose law would have applied if the parties had not chosen the law to apply to their contract.
- 31 Nonetheless, there may be occasions to compare these domestic mandatory rules and those of the law chosen by the parties in order to determine which are more author- or performer-protective. The comparison, moreover, may not be obvious.
- 32 Where the law that would have applied in the absence of the parties’ choice proves more protective, it will govern the parties’ relationship to the extent set out by the State that enacted the mandatory rule. Specifically, if that State determined to limit the ambit of its mandatory rule to the territory of that State (as is the case with the US Copyright Act’s non waivable termination right), Guideline 21(2) would not permit the rule to apply more broadly.

Marie-Elodie Ancel, Jane C Ginsburg

#### **22. Absence of Choice**

1. **In the absence of choice of law by the parties pursuant Guideline 21, a contract other than an employment contract shall be governed,**
  - a) **if the contract deals with intellectual property granted for one State only, by the law of this State, unless it is clear from all the circumstances of the case that the contract is manifestly more closely connected with another State. Then the law of that other State shall apply;**
  - b) **if the contract deals with intellectual property granted for more than one State, by the law of the State with which**

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Single Market, [2019] OJ L130/92, and amending Directives 96/9/EC, [1996] OJ L 77/20, and Article 20 Directive 2001/29/EC, [2001] L167/10 (more generally, on the mandatory provisions laid down by the Directive, see Recital 81).

9 Compare Article 307(3) Joint Korean-Japanese Principles with Article 3:606(2) CLIP Principles.

10 See Article 15 Rome II Regulation, [2007] OJ L199/40.

11 It should be presumed that a rule of interpretation specifically and expressly enacted in favor of creators or performers is mandatory according to the legal system it belongs to. However this presumption can be reversed: see German Supreme Court, I ZR 35/11, 24 September 2014, GRUR 2015, 264 - *Hi Hotel II*, holding that rules of interpretation set out by German law for grants of copyright (§ 31(5) German Copyright Act) are not internationally mandatory because they are not mandatory on the internal level.

12 See the “best-seller” provision in Portugal (Article 49 Portuguese Copyright Act) and Germany (§§ 32, 32a and 32b German Copyright Act). See also Article 20 Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital

**the contract is most closely connected; in determining this State, the court shall take into consideration among other possible factors:**

- **the common habitual residence of the parties;**
- **the habitual residence of the party effecting the performance characteristic of the contract;**
- **the habitual residence of one of the parties when this habitual residence is located in one of the States covered by the contract.**

- 2. For the purpose of this provision, the habitual residence of a party shall be determined at the time of conclusion of the contract.**

**See as reference provisions**

§ 315 (2) ALI Principles

Art 3:502 CLIP Principles

Art 306(2) Transparency Proposals

Art 307 Joint Korean-Japanese Principles

**Short comments**

- 33** Guideline 22 addresses the case in which the contracting parties have not chosen the law applicable to their contract (apart from employment contracts, which are the subject of Guideline 23). Guideline 22 envisages two kinds of contracts, depending on their geographic scope.
- 34** With respect to the first kind of contract, it concerns only one State; its limited scope facilitates the analysis of conflict of laws. Subsection a) of paragraph 1 designates the law of the State for which the rights which form the object of the contract are granted, whatever the nationality or residence of the parties may be. The law applicable to the contract therefore coincides with the *lex loci protectionis*, thus avoiding the prospect of differences between the two laws. Guideline 22(1)(a), however, allows for the possibility that the contract might present more significant contacts with another State.
- 35** With respect to the second kind of contract, the intellectual property rights at issue cover multiple territories. Subsection b) of paragraph 1 subjects the contract to the law of the State with which it has the most significant relationship; it also sets out several connecting factors that assist in characterizing that relationship: the habitual residence of the parties in the same State; the habitual residence of the party who must furnish the characteristic performance; the habitual residence of either one of the parties if it is located in one of the States covered by the contract.

These connecting factors need not all apply in every case, and they do not preclude taking other factors into account.

- 36** In order to ensure the predictability of the law that will apply to the contract, paragraph 2 of Guideline 22 fixes habitual residence as of the date of the conclusion of the contract.

**Extended comments**

***Hypothetical 1***

A grants B the right to exploit his work (or his trademark, or his patent or design) in State X. The parties did not include a choice of law clause. It will be governed by State X law, but if the parties both habitually reside in State Y, and if payments under the contract are to be made in State Y currency to A's account in a bank established in State Y, State Y law will apply as the law of the State with which the transaction is most closely connected.

***Hypothetical 2***

A grants B the right to exploit his work (or his trademark, or his patent or design) in States X, Y and Z. The parties did not include a choice of law clause. To determine the governing law, it will be necessary to take into account the parties' habitual residence, the residence of the party who furnishes the characteristic performance (in this case, A, the grantor), but also the currency, and revenue flows (for example, from exploitations in multiple States to a bank account in a single State) or the link the contract, such as a franchising agreement, may have with another contract whose governing law has been established.

***Closer and closest connections***

- 37** When the contract's geographic scope is limited to a single State, Guideline 22(1)(a) presumes that it presents the closest connection to that State. It is nonetheless possible to present contrary proof that is, to demonstrate that the contract is more closely connected to another State.
- 38** When the contract covers multiple States, or indeed, the whole world, the connection to any one State may be weaker. In that situation Guideline 22(1)(b) provides no presumption. It therefore becomes necessary to determine the State with which the contract is most closely connected. To that end, Guideline 22 enumerates several relevant connecting factors, starting from habitual residence. The enumeration is illustrative, not limitative. Other connecting factors may be taken into account, so long as they are based on elements known to both parties and are established by the time of the

conclusion of the contract. For example, a relevant point might be the choice of a particular currency, or of the State in which the payments are to be made, or of the relationship of the contract to another contract entered into by the same parties (for example, a license agreement that implements a broader cooperation agreement among the parties). Other elements, such as the language of the contract or the presence of a choice of forum clause, may be taken into account when they reinforce certain of the abovementioned connecting factors.

All of these elements may also be employed to rebut the presumption of Guideline 22(1)(a).

### *Performance characteristic of the contract*

- 39 The reference to the contract's characteristic performance is borrowed from the Rome I Regulation.<sup>13</sup> It requires identifying the most important performance of the contract, that which expresses the function or the economic dynamic of the agreement. When a party simply pays a fixed sum to another party, the second party is usually considered the one who renders the characteristic performance. For example, in a contract assigning several patents for a fixed sum, the grantor is the party who furnishes the characteristic performance, which is the transfer of the industrial property rights. Similarly, if a work is commissioned to an author, he will be the one rendering the characteristic performance of the contract. But the economy of intellectual property contracts may be more complex. For instance, when the remuneration of the holder of the right granted depends on the results of the other contracting party's activity, that activity represents a particular economic value and may constitute the characteristic performance of the contract. Thus, when a patent holder grants the right to exploit his patents in several States and must, by virtue of the contract, receive a remuneration proportional to the licensee's revenues, the grantee's exploitation may appear to supply the characteristic performance. For the same reasons when a publisher has undertaken the obligation to exploit and promote the intellectual property right in the interest of the author, he is to be seen as the characteristic performer.<sup>14</sup>

13 Article 4(2) Rome I Regulation, [2008] OJ L 177/6. Compare with Article 3:502(2) CLIP Principles. See also Article 1211(1) of the Civil Code of the Russian Federation.

14 German Supreme Court, I ZR 218/53, 22 November 1955, GRUR 1956, 135 – "*Sorell and Son*" about a book publishing contract; German Supreme Court, I ZR 182/98, 29 March 2001, GRUR 2001, 1134 – "*Lepo Sumera*", about a music publishing contract. See also Hungarian Supreme Court, 6 October 1995, Pf.IV. 22284/1994/3 [1998] GRUR Int 1998, 74 (German translation); Paris Court of Appeal, 2 June 1999, [1/2000] RIDA 302.

- 40 To enable the identification of a single law, the residence of the party furnishing the characteristic performance supplies the relevant connecting factor, rather than the State(s) in which the characteristic performance is rendered.
- 41 As it is not always possible to identify the characteristic performance (that is, to determine whether one party's performance is more important than the other), Guideline 22(1)(b) does not designate the habitual residence of the party furnishing the characteristic performance as the presumptively applicable law (when it is possible to identify that performance), but rather as one of several connecting factors to be taken into account.

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### 23. Employment Contracts

1. **An employer and its employee whose efforts give rise to an intellectual property right may choose the law governing their contractual relationship in accordance with Guideline 21. Such a choice of law shall not, however, have the result of depriving the employee of the protection afforded to him by the provisions that cannot be derogated from by agreement under the law that, in the absence of choice, would be applicable pursuant to paragraphs 2 and 3.**
2. **In the absence of choice of law by the parties, the contractual relationship between employer and employee shall be governed by the law of the State in which or, failing that, from which the employee habitually carries out his work in performance of the contract.**
3. **The State where the work is habitually carried out shall not be deemed to have changed if the employee is temporarily employed in another State. Where it is clear from all the circumstances of the case that the contract is more closely connected with a State other than that indicated in paragraph 2, the law of that other State shall apply.**

#### See as reference provisions

§§ 311 (2), 312 (2), 313 (1)(c) and (2) ALI Principles  
Art 3:503 CLIP Principles  
Art 25(2), 308(4) Joint Korean-Japanese Principles

#### Short comments

- 42 Guideline 23(1) recognizes party autonomy in terms of choice of law in an individual employment contract. In this context, Guideline 23 does not provide a definition of employment contract. It leaves to the competent court to determine whether

a contract is characterized as an employment contract as a preliminary question. In other words, characterization as to whether a contract constitutes an employment contract is up to the forum State. The law chosen by the parties shall not have the consequence of depriving the employee of the protection afforded to him or her by the mandatory employment regulations of the State in which or from which the employee habitually carries out his or her work in performance of the contract (*lex loci laboris*). Neither shall the law chosen by the parties have the consequence of depriving the employee of the protection afforded to him or her by the mandatory employment regulations of a different State in exceptional circumstances when the contract is more closely connected with the different State from the one in which or from which the employee habitually carries out his work in performance of the contract.

- 43 Guidelines 23(2) and (3) are the fall-back provisions in the absence of choice of law made by the parties. Guideline 23(2) prescribes that, in the absence of a choice of law made by the parties, the individual employment contract shall be governed by the law of the State in which the employee habitually carries out his work in performance of the contract. In this regard, the State where the work is habitually carried out shall not be deemed to have changed if the employee is temporarily employed in another State. Otherwise, the applicable law could be changed by sending an employee to work in another State. In cases in which no habitual place of work can be identified, the law of the State from which the employee habitually carries out his or her work in performance of the contract.
- 44 Guideline 23(2) sentence 2 will apply to the cases where the employee is expected to resume working in the State of origin after carrying out his work abroad for a limited period of time.
- 45 Due to the high threshold (“more closely” connection standard), Guideline 23(3) will apply to exceptional cases only. This provision makes it possible to deviate from the law of the State in which or from which the employee habitually carries out his/her work.
- 46 Guideline 23 does not provide which country’s law applies to cases where the law of the State in which or, failing that, from which the employee habitually carries out their work in performance of the contract cannot be determined. However, it is based on the assumption that the closest connection test should be applied to those situations. If it is impossible to determine a State in which or from which the employee habitually carries out his or her work,

the law of the State of the place of business through which the employee was engaged will be taken into account.

### Extended comments

#### *Hypothetical 1*

A, a producer of diagnostic medical instruments and a habitual resident of State X, brought an action before a court of State Y against A’s former employee B, a habitual resident of State Y, for patent infringement, alleging that B applied for and obtained a patent for the same diagnostic medical instruments in State Y. B argued that the invention was made before his/her employment contract with A whereas A claimed it was made in the course of his/her employment. The employment contract designated the law of State X as its governing law. The law of State X, which was the law chosen by A and B, will determine whether A can claim any rights arising of the contract under Guideline 23(1).

However, B worked in State Y, as an employee and he has a mandatory right to non-exclusive remuneration for invention under the law of State Y. Under Guideline 23(1) second sentence, application of the law of State X shall not have the result of depriving B of the mandatory right to non-exclusive remuneration afforded to him/her by the law of State Y.

#### *Hypothetical 2*

An employee A, a habitual resident of State X, has been employed in State Y by a pharmaceutical product company B of State Z. A has worked for B for the last 5 years in State Y. The employment agreement did not contain how much remuneration A would be paid for his invention made in the course of employment with B. In terms of the remuneration issue, the law of state Y shall apply under Guideline 23(2) sentence 1.

If A worked for the last 2 months in State X and returned to State Y, the law governing the remuneration issue is the law of state Y pursuant to Guideline 23(2) sentence 2.

#### **Party autonomy principle**

- 47 Guideline 23 does not define the employment contract. In this context, it will leave doors open for a court of the forum State to determine whether a contract is characterized as an employment contract as a preliminary question. In other words, characterization as to whether a contract constitutes an employment contract is up to the forum State.

- 48 Guideline 23(1) is modeled after Article 3:503 (1) of CLIP Principles. These provisions are very much influenced by Article 8 of the EU Rome I Regulation.
- 49 Guideline 23(1) recognizes party autonomy in terms of choice of law in an individual employment contract, for the interpretation of the contract<sup>15</sup> and for determining its effect,<sup>16</sup> while prohibiting such a choice of law from having the result of depriving the employee of the protection afforded him/her by provisions that cannot be derogated from by agreement<sup>17</sup> under the law applicable pursuant to the following fall-back provisions.

***Fall-back provisions in the absence of choice of law***

- 50 Guidelines 23(2) and (3) provide the fall-back provisions in the absence of choice of law made by the parties.<sup>18</sup> Guideline 23(2) sentence 1 prescribes that, in the absence of a choice of law made by the parties, the individual employment contract shall be governed by the law of the State in which or, failing that, from which the employee habitually carries out their work in performance of the contract. Guideline 23(2) sentence 1 is identical to Article 8(2) sentence 1

of the Rome I Regulation and Article 3:503 (2) of CLIP Principles. Apart from party autonomy principle, Guideline 23(2) sentence 1 provides for functional allocation, i.e., the law applied to the employment contract is the law of the State where the employee habitually works.

- 51 In this regard, the State where the work is habitually carried out shall not be deemed to have changed if they are temporarily employed in another State.<sup>19</sup> Otherwise, the applicable law may be changed by sending an employee to work in another State. In cases in which no habitual place of work can be identified, the law of the State from which the employee habitually carries out his work in performance of the contract.
- 52 Guideline 23(2) sentence 2 will be applied to the cases where the employee is expected to resume working in the State of origin after carrying out his works abroad. In this context, the conclusion of a new employment contract with the original employer or an employer belonging to the same group of companies as the original employer should not bar the employee from being considered as carrying out his tasks in another State temporarily. The decisive factor in terms of Guideline 23(2) sentence 2 is the intention of the parties (*animus retrahendi*).

***Exception Clause***

- 15 CJEU, C-64/12, ECLI:EU:C:2013:551 – *Anton Schlecker v Melitta Josefa Boedeker*; § 45 (holding that Article 6(2) of Rome I Regulation, [2008] OJ L 177/6, “must be interpreted as meaning that, even where an employee carries out the work in performance of the contract habitually, for a lengthy period and without interruption in the same State, the national court may, under the concluding part of that provision, disregard the law of the State where the work is habitually carried out, if it appears from the circumstances as a whole that the contract is more closely connected with another State”); CJEU, C-29/10, ECLI:EU:C:2011:151 – *Heiko Koelzsch v État du Grand Duchy of Luxembourg*; § 51 (Article 6 (2)(a) of Rome I Regulation, [2008] OJ L 177/6, must be construed “as meaning that, in a situation in which an employee carries out his activities in more than one Contracting State, the State in which the employee habitually carries out his work in performance of the contract, within the meaning of that provision, is that in which or from which, in the light of all the factors which characterize that activity, the employee performs the greater part of his obligations towards his employer.”).
- 16 The Korean Supreme Court, Case No. 2012 Da 4763, 15 January 2015, which held that the grant of a free non-exclusive license to an employer by operation of law would be governed by the law applicable to the employment relationship. Its lower court decision was the judgment rendered by Seoul High Court, Case No. 2011 Na 20210, 8 December 2011.
- 17 Supreme Court of Oklahoma, *Howard v Nitro-Lift Technologies, L.L.C.*, 2011 OK 98, 273 P. 3d 20, 331 I.E.R. Cas. (BNA) 902 [2011], petition for cert. filed, 80 U.S.L.W. 3647 [U.S. May 14, 2012].
- 18 Cf. Article 8 Rome I Regulation, [2008] OJ L 177/6.

- 53 Due to the high threshold (“more close” connection standard), Guideline 23(3) will apply to exceptional cases only.
- 54 According to Guideline 23(3), where it is clear from all the circumstances of the case that the contract is more closely connected with a State other than the law of the State in which or, failing that, from which the employee habitually carries out his or her work in performance of the contract, the law of that other State shall apply.<sup>20</sup>
- 55 For example, this exception clause is applicable to the right to claim a patent right in case of several co-inventors who are habitually employed in different States. In order to avoid applying several different laws to the right, the initial owner of the right should be identified in accordance with the closest connection test under Guideline 23(3). The governing law will ordinarily be the law of the State where the center of gravity of the inventive activity is situated or, as the least preferable option, to the State of the habitual residence of the employer. In another example, when it comes to assignment or license of international property rights, the employment

19 Article 8(2) 2 of Rome I Regulation, [2008] OJ L 177/6.

20 Article 8(4) of Rome I Regulation, [2008] OJ L 177/6.

contract is presumed to be most closely connected to the State in which the assignor or the licensor resided at the time of the execution of the contract.<sup>21</sup>

- 56 Guideline 23(3) is reserved for exceptional cases, so that courts can apply it only in special circumstances. Some factors to be taken into account as relevant circumstances of the case include the nationality and location of the parties, the language and currency used in the contract, and the existence of previous employment contracts between the parties.<sup>22</sup> Guideline 23(3) does not allow the seeking of the most favorable solutions for the employee from the perspective of substantive law.
- 57 Guideline 23 does not provide what law is applied to cases where the law of the State in which or, failing that, from the employee habitually carries out their work in performance of the contract cannot be determined.<sup>23</sup> However, it is based on the assumption that the closest connection test should be applied to those situations. If it is impossible to determine a State in which or from which the employee habitually carries out his or her work, the law of the State of the place of business through which the employee was engaged will be taken into account.

#### **Public Policy or Mandatory Rules**

- 58 Guidelines 23(1) enforces the mandatory employment regulations of the State in which or from which the employee habitually carries out his/her work in performance of the contract (*lex loci laboris*), or of another State where has more connected with the State in which or from which the employee habitually carries out his/her work in performance of the contract. Some good illustrative examples are mandatory provisions applied to employees for employee inventions and mandatory remuneration for employee inventions. The phrase “provisions which cannot be derogated from by agreement” should be differentiated from the term “overriding mandatory provisions” in Guideline 29 and should

<sup>21</sup> § 315(2)(2) ALI Principles.

<sup>22</sup> A place of residence in the other State turned out to be insufficient to repeal the law of the State in which the employee habitually carries out his work in the English case of *Shekar v Satyam Computer Services* (2005 ICR 737).

<sup>23</sup> Article 8(3) Rome I Regulation, [2008] OJ L 177/6, providing that, where the law of the State in which or, failing that, from which the employee habitually carries out their work in performance of the contract cannot be determined, the contract shall be governed by the law of the State where the place of business through which the employee was engaged is situated.

be interpreted more broadly.<sup>24</sup>

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#### **24. Formal Validity**

1. **Any contract dealing with intellectual property rights shall be formally valid to the extent that it satisfies the formal requirements:**
  - a) **of the law of the State which governs the contract pursuant Guidelines 21-23, or**
  - b) **of the law of the State in which either of the parties has its habitual residence at the time of the conclusion of the contract, or**
  - c) **of the law of any other State with which the contract is connected.**
2. **This provision shall not deprive creators, performers and employees of the protection resulting from Guideline 21 paragraph 2 and Guideline 23, paragraph 1.**

**See as reference provisions:**

§ 315 ALI Principles

Art 3:504 CLIP Principles

Art 306(4) Transparency Proposals

#### **Short comments**

- 59 In order to avoid invalidating contracts for defects of form, Guideline 24(1) provides several alternative connecting factors. These are, on the one hand, in (a), the law that governs the substance of the contract, as determined under the prior Guidelines; on the other hand, under (b) and (c), more circumstantial elements: the State in which each party habitually resides; or any other State with which the contract presents a connection.
- 60 Guideline 24(2) nonetheless constrains this very open-ended approach to formal validity. Certain formal requirements, such as the detailed specification of the remuneration, or the specification of modes of exploitation of works of authorship have a particularly strong connection to the substantive law governing the agreement, and are intended to protect the author or performer. These requirements must be respected if they are mandated by the State whose law Guideline 21(2) and Guideline 23(1) designate.

<sup>24</sup> Recital 37 of the Rome I Regulation, [2008] OJ L 177/6. See Guideline 29.

**Extended comments****Hypothetical 1**

By virtue of the law that applies to the contract entered into between A and B, which is also the law of State X where A habitually resides, the agreement should have been notarized, which it was not. Nonetheless, B habitually resides in State Y whose law merely requires that the contract be in writing and signed by both parties, which is the case for A and B's agreement. Had there been no writing, it might nonetheless be possible to validate the contract if one of the other laws set out in Guideline 24(1) would validate a purely oral agreement.

**Hypothetical 2**

The contract concluded between author and publisher A and B concerns a single State X, whose law would apply by virtue of Guideline 22(1)(a). However, they have chosen the law of State Y to govern their contractual relationship, as Guideline 21 permits. The law of State Y does not require that a grant of rights in future technologies be explicit. By contrast, under the law of State X, such a grant must be specifically stated. A may claim the benefit of this protective formal rule.

**Alternative connecting factors**

- 61 Consistently with a widespread approach,<sup>25</sup> Guideline 24(1) enumerates different connecting factors in order to increase the chances that one of the designated laws will validate the form of the contract. One connecting factor on which the Guidelines do not rely is the State in which the parties were present at the time of the contract's conclusion. If this location has any significant bearing on the transaction, it will come within the general criterion of "any other State with which the contract is connected". Setting out the place of the parties' presence as an autonomous point of attachment, however, risks subjecting the validity of the form of the contract to the law of a State with which the transaction has no meaningful connection. For example, party A could be in the Dubai airport on a stopover from New York to Singapore when, using Skype, A concludes a contract dealing with a Brazilian trademark with B, a French citizen, who is on a skiing holiday in Switzerland when she participates in the Skype call.
- 62 Guideline 24(1)(c) therefore refers to the law of any other State with which the contract has a connection. Such a State could be the one for which rights are granted, or of another contract between the parties to which the current contract is related. If the parties

have specifically chosen a particular place in which to conclude and sign the contract, that place may have a relevant connection to the agreement.

**Formal requirements intended to protect authors and performers**

- 63 Following up on the protection guaranteed by Guideline 21(2) and Guideline 23(1), Guideline 24(2) guarantees the application of the more protective formal rules of the State whose law would apply to the contract in the absence of a choice of law clause. In such cases, it is unnecessary to assess whether these requirements constitute overriding mandatory rules within the meaning of Guideline 29; it suffices that they be more protective of the interests of authors and performers, whether or not they are employees, than the rules of formal validity Guideline 24(1)'s multiple connecting factors would otherwise designate. Moreover, thanks to Guideline 24(2), the international regime of more protective laws aligns with the regime of more protective laws governing the substance of the contract. The distinction between form and substance thus disappears, obviating the need to litigate whether a particular rule goes to a contract's form or its substance.

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**C. Infringements****25. Basic Rule on Infringement**

- 1. The law applicable to the infringement of an intellectual property right is the law of each State for which protection is sought.**
- 2. The law applicable to the remedies for the infringement may be chosen by the parties.**

**See as reference provisions**

§§ 301-302 ALI Principles

Arts 3:601, 3:602, 3:605, 3:606 CLIP Principles

Arts 301, 303, 304 Transparency Proposal

Arts 304-305 Joint Korean-Japanese Principles

**Short comments**

- 64 Guideline 25 lays down an internationally accepted rule of *lex loci protectionis* that requires subjecting intellectual property infringements to the law of the State for which protection is sought. It is the same rule that applies to proprietary aspects of intellectual property disputes (Guideline 19). *Lex loci protectionis* reflects the territorial nature of intellectual property rights, and implies that different States' laws may define intellectual property right infringements

<sup>25</sup> See also Article 11 Rome I Regulation, [2008] OJ L177/6.

in different ways, which may lead to different outcomes in a cross-border intellectual property infringement case. This rule should be distinguished from the *lex fori* rule which subjects intellectual property infringement to the law of the State where the infringement is litigated.

- 65 Guideline 25 also sets an exception to the territoriality principle. It allows parties to choose law applicable to the remedies for the infringement. This rule is meant to provide more discretion for the parties to the dispute and increase efficiency of the proceedings. This party autonomy rule is limited as it applies to the remedies for the infringement only, and does not apply to other infringement-related or proprietary issues.

### **Extended comments**

#### ***Hypothetical 1***

Patent holder A situated in State X has patent rights over an invention in States Y and Z. Company B established in state Y infringes A's rights by producing an infringing product in State Y and selling it in States Y and Z. A may choose to sue B in State Y, B's domicile, and claim an infringement both in States Y and Z (see international jurisdiction rule under Guideline 3). In such a case, State Y's court will have to apply Y's and Z's laws to determine whether there is an infringement and what remedies are available in each State separately.

#### ***Hypothetical 2***

Company A situated in State X has copyright on a film. Company A has a contract with a distribution company B situated in State Y that assigned company B film distribution rights for the territory of State Y. The contract States that all disputes arising out of or related to the contract, including disputes related to any possible future right infringements, are governed by the law of State X. B starts making and distributing copies of A's film in State Z. A sues B in State Y (B's domicile) for copyright infringement occurring in State Z. Although the infringement will have to be adjudicated under Z's law as the law of the State for which protection is sought, remedies may be determined under State's X law as the law chosen by the parties.

### ***Territoriality and a "Mosaic Approach"***

- 66 *Lex loci protectionis* rule provided for in Guideline 25(1) mirrors the territoriality principle which underlies intellectual property rights and that could be implied from international intellectual property treaties.<sup>26</sup> It leads to a so called "Mosaic Approach"

whereby a right holder enjoys multiple national intellectual property rights that exist in different States independently. Even in case of unregistered rights, such as copyright, the territoriality principle suggests that there is no single universal copyright in a work; rather, copyright in each State exists separately and, therefore, cross-border infringement of copyright should be adjudicated in each protecting State independently. The underlying rationale of this rule is that each State has sovereignty to determine the scope of intellectual property rights and the consequences of their infringement. A similar applicable law rule for intellectual property infringements could be found in many national and regional laws (e.g., the EU Rome II Regulation<sup>27</sup>) and all predecessor projects.

### ***Scope of lex loci protectionis***

- 67 It could be implied from Guideline 25(1) that *lex loci protectionis* applies to all infringement-related issues, such as existence of the infringement, extent of liability, limitations on liability, remedies and others. While the Guideline does not list all issues that are covered by the "infringement", such lists are available under some national and regional laws.<sup>28</sup> As indicated earlier, the *lex loci protectionis* rule also applies when determining the existence, scope and transferability of the right (see Guideline 19). In contrast, initial ownership of the right and ubiquitous infringements are determined under separate sets of rules (see Guidelines 20 and 26 respectively).

### ***Party autonomy as an exception to territoriality***

- 68 Party autonomy that is implemented in Guideline 25(2) is an exception to the territoriality principle and the *lex loci protectionis* rule. Namely, parties are allowed to choose a single law that applies to remedies in a single-state or multi-state intellectual property infringement. The rationale of this rule is that parties to the intellectual property infringement dispute, like in any other tort case without broader public interest, should be given certain discretion how to deal with the legal dispute. Hence, they should be able to choose law that will govern at least the remedies in the case. Reducing the number of laws that have to be applied to determine remedies in different States allows a more efficient adjudication of multi-state intellectual property disputes. Traditionally, due to a strict territorial approach to intellectual property rights, choice of law by parties has not been possible in disputes over intellectual

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literary and artistic works (1886).

27 Article 8(1) Rome II Regulation, [2007] OJ L199/40.

28 See e.g. Article 15 Rome II Regulation, [2007] OJ L199/40.

26 See e.g. Article 5(2) Berne Convention for the protection of



property rights.<sup>29</sup> However, some national laws allow parties to choose the law in intellectual property law disputes,<sup>30</sup> and all predecessor projects suggested introducing party autonomy in intellectual property disputes, although to a slightly different extent.<sup>31</sup>

#### *Exercise and limits of party autonomy*

- 69 Parties are free to choose the law applicable to the remedies at any point in time. Since the Guideline does not restrict the time when the choice could be made, it could be made before or after the dispute arises (e.g. in a pre-existing contract).
- 70 According to Guideline 25(2), party autonomy in intellectual property disputes is limited to the kinds of redress for injury. Parties are able to choose applicable law to remedies only. This includes injunctions, damages and other sanctions, such as seizure and destruction of infringing goods, although procedural aspects shall be subject to the *lex fori*. For all other matters, such as existence of the right, its scope and transferability, initial ownership as well as all other issues related to the infringement (e.g. third party liability, limitation of liability and others), parties cannot choose the applicable law. With relation to these issues, respective applicable law rules prescribed under these Guidelines will have to apply. All predecessor projects also adopt restrictions with regard to party autonomy in intellectual property disputes.<sup>32</sup>

29 E.g. EU Rome II Regulation, [2007] OJ L199/40, does not allow such choice either, see Article 8(3) Rome II Regulation.

30 E.g. Article 110(2) Swiss Federal Code on Private International Law and Article 50 China's Law on the Laws Applicable to Civil Relationships Involving a Foreign Element Foreign-related Civil Relations. Concerning the application of this provision, see Xiang Weiren v Peng Lichong ("Drunken Lotus"), [2015] Jing Zhi Min Zhong Zi 1814, applying Chinese law to infringements occurring in Germany and Russia on the basis that the parties agreed on the application of the law of the forum. Full text of the case can be found here (in Chinese): [http://pkulaw.cn/case\\_es/payz\\_a25051f3312b07f3119ba99f8e37a1268f07b2edd50f2343bdfb.html?match=Exact](http://pkulaw.cn/case_es/payz_a25051f3312b07f3119ba99f8e37a1268f07b2edd50f2343bdfb.html?match=Exact)

31 See § 302 ALI Principles; Article 3:606 CLIP Principles; Article 304 Transparency Proposals; Article 302 Joint Korean-Japanese Principles.

32 See § 302 ALI Principles; Article 3:606 CLIP Principles; Article 304 Transparency Proposal; Article 302 Joint Korean-Japanese Principles.

#### *Choice of parties can be overridden*

- 71 Despite a limited party autonomy allowed under this rule, parties' choice of law may still lead to results that are not compatible with forum's public policy or mandatory rules (e.g. punitive damages available in some jurisdictions might be seen as incompatible with public policy in some jurisdictions). In such a case, courts may rely on public policy and mandatory rules set in the Guidelines (Guidelines 28 and 29) and deny the application of law chosen by the parties.

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#### **26. Law Applicable to Ubiquitous or Multi-state Infringements**

1. **When the infringement in multiple States is pleaded in connection with the use of ubiquitous or multinational media, the court may apply to the infringement as a whole the law or laws of the State(s) having an especially close connection with the global infringement. Relevant factors to determine the applicable law (or laws) in these situations include:**
  - the place where the harm caused by the infringement is substantial in relation to the infringement in its entirety;
  - the parties' habitual residences or principal places of business;
  - the place where substantial activities in furthering the infringement have been carried out.
2. **In situations where paragraph (1) is applied, any party may prove that, with respect to particular States covered by the action, the solution provided by any of those States' laws differs from that obtained under the law(s) chosen to apply to the case as a whole. The court must take into account such differences when fashioning the remedy.**
3. **Paragraphs (1) and (2) above may apply mutatis mutandis in cases of secondary or indirect infringements of intellectual property rights.**

#### **See as reference provisions**

§§ 301-302, 321 ALI Principles

Arts 3:603, 3:604 CLIP Principles

Art 302 Transparency Proposal

Art 306 Joint Korean-Japanese Principles

### Short comments

- 72 Guideline 26 sets a new applicable law rule for infringements occurring via ubiquitous or multinational media, such as the Internet. It suggests that such ubiquitous or multinational infringements could be adjudicated under a single law with an especially close connection to the dispute. It departs from the territoriality principle and abandons the requirement that a multi-state infringement shall be subject to the law of each protecting State separately.
- 73 The purpose of this rule is to facilitate the enforcement of global intellectual property infringements and ensure that remedies for the entire global infringement could be granted under a single applicable law. At the same time, the Guideline contains an exception that allows parties to invoke another law that provides a different outcome to the dispute. This establishes a balance between territoriality and universality approaches in ubiquitous infringement cases. The rule can also be applied to indirect or secondary infringements.

### Extended comments

#### *Hypothetical 1*

A, who resides in State X, owns rights into a song. The song was uploaded without authorization on B's website and became accessible for free in essentially all States around the world. B resides and B's business is registered in State Y. B's website is in English and its users primarily come from English-speaking States, such as State X, where A's songs are best known. A sues B in State Y, B's domicile, and requests the court to adjudicate the entire multi-state dispute under the law of State X. X's law arguably has an especially close connection with a dispute since significant harm occurred in State X when users originating in State X downloaded the song, and at least one party resides in State X.

State's X law allows additional (punitive) damages. As State's Y law does not allow additional damages, B can claim that State's Y law, if applied, would lead to a different result. The court may take this into account and reduce damages in proportion to a number of users who accessed the song from State Y.

#### *Ubiquitous infringements and a single-law approach*

- 74 Guideline 26(1) subjects ubiquitous intellectual property infringements to a single applicable law and thereby establishes an exception to the territoriality principle. The rule proposed in this Guideline is novel and has not been adopted in any national, regional or international laws yet. However, all predecessor projects contained a single-law approach that allows

adjudicating multi-state infringements by applying a single applicable law, instead of multiple laws of several States.

- 75 The purpose of the rule is to facilitate the adjudication of multi-state infringements which otherwise would be subject to multiple national laws. In particular, it applies in cases where infringements occur when using ubiquitous or multinational media, such as the Internet. In such an environment, intellectual property rights can be simultaneously infringed in a number of jurisdictions and enforcing these rights by applying a traditional territorial approach is impracticable, if possible at all. Such infringements are most frequent with relation to copyright which is automatically protected in all Berne Union Member States<sup>33</sup> and is easily infringed in all of these States. This rule might be particularly relevant in *prima facie* copyright infringement cases (e.g. straightforward copyright "piracy" cases) but might be little useful in less straightforward cases (e.g. involving the interpretation and application of copyright exceptions). Single-law approach could also be applied with relation to multi-state trademark infringements online, e.g. when a trademark is registered in multiple States, or with relation to trade marks that are protected under national laws without registration.

#### *A single law with an "especially close connection"*

- 76 The law that applies to adjudicate the entire multi-state dispute is the law that has "an especially close connection" with the infringement. An especially close connection rule has been chosen as a flexible rule that helps to avoid "forum shopping" and "race to the bottom" problems that other more specific rules would cause (such as *lex fori* or *lex loci delicti*). The Guideline provides a non-exhaustive list of factors that should be taken into account when determining which law has a sufficiently close connection, such as a place of substantial harm, parties' habitual residence or a place of business, and place of substantial activities. The court will have to take all relevant circumstances into account in order to determine which State has an especially close connection to the dispute. If the dispute appears to have an equally close connection to several States, several laws might apply to different parts of a multi-state infringement.

#### *Limits of a single-law approach*

- 77 Guideline 26(1) is meant to apply in situations where respective intellectual property laws are similar in all States covered by the claim and therefore it is very likely that the infringement would be

<sup>33</sup> Signatories of the Berne Convention for the protection of literary and artistic works (1886).

established under each law separately. When this is not the case, Guideline 26(2) sets an exception to the rule. It allows any party to argue that the State other than the one with an especially close connection has different laws on the matter (e.g. has broader or narrower copyright exceptions, different liability rules or remedies available). The court is required to take into account such differences in fashioning the remedy (e.g. by excluding a particular State from an injunction or reducing damages accordingly).

- 78 In addition, Guideline 26 “allows” but does not “require” the courts to apply the ubiquitous infringement rule. This means that the general rule of *lex loci protectionis* (Guideline 25(1)) may also be applied for the adjudication of ubiquitous infringements. If the court finds that a single-law approach proposed by the ubiquitous infringement rule is not suitable for a particular infringement occurring over ubiquitous media, the court may resort to a traditional *lex loci protectionis* rule and adjudicate the dispute under the law of each protecting State separately.

***Secondary infringements may be subject to a single-law approach***

- 79 Guideline 26 may also be applied in case of secondary or indirect infringements. However, applying a single-law approach to such infringements might be more difficult since liability for secondary or indirect infringements is not internationally or regionally harmonized. It is more likely to be applied in straight-forward (*prima facie*) intellectual property infringement cases. Notably, the ubiquitous infringement rule was extended to secondary or indirect infringements only in some of the predecessor projects,<sup>34</sup> while the remaining predecessor projects did not address this complicated matter at all.

*Rita Matulionyte*

**27. Collective Rights Management in the Field of Copyright and Related Rights**

1. The law of the State where a collective rights management organization has its actual seat of administration shall govern
  - a) the requirements for the specific corporate structure of collective rights management organizations;
  - b) the rights, conditions and principles concerning the relationship of the right holder, as well as of another collective rights management organization representing

right holders, vis-à-vis a collective rights management organization, such as

- (i) the right and conditions for becoming a member of this organization;
  - (ii) the right and conditions for entrusting rights to this organization;
  - (iii) the rights and conditions for withdrawing the management of rights from this organization;
  - (iv) the requirements regarding the calculation and distribution of the organization’s revenue to the right holders and other collective rights management organizations representing right holders; and
  - (v) the rights and conditions on access to alternative dispute resolution to be offered by the collective rights management organization; and
- c) in absence of a choice of law by the parties, the contract under which the right holder entrusts rights to this organization.
2. The law of the State for which protection is sought shall govern
    - a) the presumption that a collective rights management organization is empowered to seek protection for certain works or subject-matter of related rights;
    - b) mandatory collective rights management;
    - c) the power of an individual collective rights management organization to grant licenses or collect statutory remuneration without prior consent of the right holder;
    - d) the issue of whether and under which conditions a collective rights management organization has to license rights to users; and
    - e) the requirements regarding the calculation of the royalty rates and statutory remuneration.
  3. The law of the forum shall govern legal standing of a collective right management organization before a court.
  4. This guideline applies without prejudice to the applicable competition law rules.

<sup>34</sup> See Article 3:604 CLIP Principles.

**Short comments**

- 80** As all private international law rules, Guideline 27 on collective rights management only relates to private law issues. It does not identify the administrative law that State authorities apply when controlling collective rights management organizations (in the following: CMOs). Whether national provisions are of a private or administrative law nature should be decided in the light of the potentially applicable national law. Rules that have both a private and administrative law character fall within the scope of the Guidelines.
- 81** Guideline 27 is an innovation in private international law. Neither national law nor international law specifically provide conflict rules relating to collective rights management. When legislatures adopt sector-specific rules on collective rights management, they typically remain silent on issues of private international law.
- 82** Contrary to the past, private international law is quickly gaining relevance with regard to collective rights management. Especially in the field of online use of music, multi-territorial licensing has emerged as a new tool used by CMOs. Equally, right holders may decide to mandate their rights to a foreign CMO. In the European Union, harmonization of the law on collective rights management is particularly motivated by the objective to enhance cross-border competition among national CMOs for right holders.
- 83** The major question to be answered is whether and to which extent a deviation from the *lex loci protectionis* rule should be advocated. Guideline 27(1) proposes such deviation in favor of the application of the law of the State of the actual seat of administration of a CMO for all issues regarding the relationship between such CMO and right holders. Conversely, Guideline 27(2) maintains the *lex loci protectionis* rule for issues concerning the relationship between a CMO and users.
- 84** Regarding the relationship with right holders, application of the law of the State of the CMO's actual seat of administration has considerable advantages. Right holders will often prefer to mandate their rights under multiple national laws to a single CMO. In such instances, Guidelines 27(1) avoids the need for parallel application of multiple laws. This enables the CMO to define its relationship with all right holders uniformly against the backdrop of its national law. Application of the national law at the CMO's actual seat of administration also favors application of the same national law in a private and administrative law context. Conversely, there is no legitimate interest that would advocate the application of the *lex loci protectionis* or the law of the State of the habitual residence of the right holder.
- Since right holders can freely decide whether they prefer to mandate the management of their rights to the local CMO or a foreign CMO, cross-border competition among CMOs should sufficiently take care of their economic interests.
- 85** Regarding the relationship with users, application of the *lex loci protectionis* rule according to Guideline 27(2) is mandated by the application of this same law according to Guideline 25(1) in the case of infringement. Hence, the *lex loci protectionis* applies both to legal and to illegal use of rights. Application of the *lex loci protectionis* also guarantees a level-playing field of all, national and foreign, CMOs with regard to the use of rights in a given State. In contrast, deviation in favor of the law of the State of the CMO's actual seat of administration would open the door for forum shopping, since CMOs could choose to establish their seat in a State with lower levels of protection for users.
- 86** Yet some States limit the possibility of foreign CMOs to claim rights for their right holders before national courts. Guideline 27(3) characterizes this issue as a procedural one, stating that the law of the forum should decide on this matter. This rule prevents individual States from introducing such limitations on legal standing with effect before foreign courts.
- 87** Guideline 27 needs to be delimited from other choice-of-law rules. Guideline 27(4) explicitly states that Guideline 27 applies without prejudice to the applicable competition law rules. Still, the *lex protectionis* rule pursuant to Guideline 27(2) will typically be the same as the law applicable under the effects doctrine in the field of competition law.
- 88** Apart from Guideline 27(1)(c), Guideline 27 does not aim to identify the contract law applicable to the contractual relationship between a CMO, on the one hand, and right holders or users, on the other hand. Accordingly, the parties are in principle free to choose the law that governs their contractual relationships. Yet, where a choice of law is absent, Guideline 27(1)(c) departs from Guideline 22, stipulating that the law of the State of the CMO's actual seat of administration should apply in such case. This rule recognizes the legitimate interest of a CMO to apply its national law uniformly to all, national and foreign, rights it manages and all, national and foreign, right holders it represents.
- 89** The freedom to choose the applicable law also governs the relationship with users pursuant to Guidelines 21 and 22. Most importantly Guideline 22(1)(b) departs from the application of the *lex loci protectionis* in case of contracts regarding intellectual property for more than one State, such as in the case of multi-territorial licenses. The second indent of this provision, referring to the habitual residence of the

party effectuating the characteristic performance, will typically lead to the application of the law of the State of the actual seat of the CMO that grants the license.

- 90 Guideline 27 does not include any rule on the applicable law to representation agreements between CMOs. In this regard, the applicable contract law also arises from Guidelines 21 and 22. Yet Guideline 27(1) also applies to the extent that a CMO has mandated the management of rights it represents to another CMO, especially with regard to the territory of another State. Hence, Guideline 27(1) should not be read to apply exclusively to cases where right holders directly claim rights against a CMO but also where they do so through representation by their CMO against another CMO.
- 91 Guideline 27(1)(a) identifies the applicable law for requirements for the specific corporate structure of CMOs. Yet this rule does not define the applicable corporate law to CMOs. However, in individual cases, it may restrict the autonomy, otherwise available to the founders and members of a CMO under the applicable corporate law, to choose a particular corporate form or to design the internal rules or structure of a CMO.

#### **Extended comments**

##### ***Hypothetical 1***

A is a limited society established in State X and manages the related rights of broadcasting organizations. A decides to open an office in State Y for the sole purpose of directly granting licenses for the cable retransmissions of its programs to the local cable operators. A is also directly mandated to manage the rights of the programs of the private TV broadcasting corporation B from State Z under the copyright law of X and Y. Regarding the relationship between B and A, Guideline 27(1) leads to the application of the law of X with regard to the rights under the law of Y. As regards the connecting factor of the “actual seat of administration”, it is only relevant where the CMO administers the relationship with the right holders; the mere fact that A decided to locate the licensing of rights to an office in State Y as regards to cable operators in Y does not suffice to make the law of Y applicable to the relationship between M and A.

##### ***Hypothetical 2***

Composer A is habitually resident in the South American State X. Her music is especially popular in the EU. She therefore seeks to mandate the CMO B, which has its headquarters in the EU Member State Y, with the licensing of her rights for the whole of the EU. Under the national law of Y, a CMO is under

an obligation to manage the rights of right holders. Pursuant to Guideline 27(1)(b)(ii), B is obliged to accept the management of A’s rights for all Member States of the EU.

##### ***Hypothetical 3***

The law of State X provides for an unwaivable remuneration right of authors and performers regarding the rental of a phonogram or a film where the exclusive right has been licensed to a phonogram or a film producer. The remuneration right can only be claimed by a CMO. In addition, the law of X recognizes the principal director of a cinematographic or audiovisual work at least as a co-author of such work. A is a film director who was hired by the film producer B from State Y for producing a film which is also exploited in State X through the rental of DVDs. Under the contract with B, A has transferred or licensed all worldwide copyrights to the extent possible to B. Pursuant to Guideline 19, the non-transferability of the remuneration right under the law of X as the applicable *lex loci protectionis* is recognized from a private international law perspective. Because of the lack of transferability, initial ownership of the remuneration right is also governed by the law of X pursuant to Guideline 20(2) (b). Therefore, A has to be considered the holder of the unwaivable remuneration right under the law of X. In addition, pursuant to the law of X, applicable as the *lex loci protectionis* pursuant to Guideline 27(2) (b), A has to use the system of mandatory collective rights management in X to generate income from the remuneration right.

#### ***Scope of application and connecting factors***

- 92 Guideline 27 only applies to ‘collective rights management organizations’ (CMOs) without providing a definition of such organizations. To distinguish CMOs from other entities that acquire rights from original right holders, the distinguishing criterion is the fiduciary relationship between the CMO and its right holders. Within these entities, national jurisdictions may further differentiate. For instance, EU law distinguishes between “collective management organizations”, on the one hand, and “independent management organizations”, on the other. The former are owned or controlled by the right holders or organized on a non-for-profit basis.<sup>35</sup> Such differentiation is needed on the EU level, since different rules of EU law will only apply to the former group of entities or to both. For the purpose of applying Guideline 27, the concept of a “collective rights management organization” should be understood broadly to cover all cases where national laws provide for special rules applicable to entities that manage copyrights or related rights on behalf of

<sup>35</sup> Article 3(a) CMO Directive (2014/26/EU), [2014] OJ L84/21.

more than one right holder. Accordingly, Guideline 27 should in principle also apply to “independent management organizations” in the sense of EU law.

- 93 As expressed by its title, Guideline 27 only applies to CMOs that manage copyrights and related rights. There are also entities that manage other intellectual property rights, especially patents, on behalf of several right holders. However, extension of Guideline 27 to so-called “patent aggregators” or “patent assertion entities (PAEs)” is not needed, since national laws do not typically provide for special sector-specific private rights regarding the relationship of such entities with right holders or potential users. To the extent that national law controls so-called patent “hold-up”, as the claiming of an injunction against an implementer especially of standard essential patents with the objective to charge excessive royalty rates, the underlying patent, contract or competition law rules typically apply to all patent holders and not specifically to PAEs acting on behalf of other right holders. Yet courts will not be prevented from applying Guideline 27 *mutatis mutandis* where national laws provide or will provide for rules that specifically apply to entities managing other rights than copyrights and related rights.
- 94 For the purpose of applying Guideline 27(1), the Guidelines do not define the “actual seat of administration of a CMO”. This provides the necessary flexibility to ensure that the same national law applies in both private and administrative law enforcement. In the EU context, the connecting factor should in principle be understood in the sense of the “State of the establishment” of a CMO. According to Article 36(1) EU CMO Directive<sup>36</sup>, EU Member States are under an obligation to ensure that their competent authorities control compliance of CMOs established in their territory with the national law adopted under the Directive.<sup>37</sup> Since the CMO Directive, not containing a definition of “establishment” either, aims to guarantee the freedom of providing services of CMOs within the internal market, it seems appropriate in principle to define “establishment” according to the rules of the EU Services Directive, namely, as “the actual pursuit of an economic activity ... by the provider for an indefinite period and through a stable infrastructure from where the business of providing services is actually carried out”.<sup>38</sup>

36 EU CMO Directive 2014/26/EU, [2014] OJ L84/21.

37 According to Article 2(4) CMO Directive 2014/26/EU, [2014] OJ L84/21, Article 36 also applies to “independent management organizations” in the sense of Article 3(b) of the Directive.

38 Article 4(5) Directive 2006/123/EC of the European

- 95 However, this definition is still in need of being adjusted to the purposes of Guideline 27(1). Since Guideline 27(1) only applies to the relationship of CMOs with right holders, the relevant economic activity in the sense of the abovementioned definition from the Services Directive should be limited to the administration of relationships with right holders. Hence, in the case where a CMO only opens an office in another State for the purpose of granting licenses to users in that State, while the relationships with right holders are administered from the headquarters, the CMO should not be considered to have an actual seat of administration in that State of the licensing branch for the purpose of applying Guideline 27(1) (see Hypothetical 1, above). Conversely, where a CMO decides to locate the administration of the relationship with right holders or a group of right holders to a branch in another State, the law of that State will apply. Hence the “actual seat of administration” does not have to be the principle seat of the CMO’s overall economic operation.

#### **Requirements for the specific corporate structure of CMOs**

- 96 The corporate structure of CMOs has an impact on the ability of right holders to become members or shareholders of the CMO and, hence, to control the operation of the CMO. To protect the economic interests of right holders, some national laws therefore prescribe a particular corporate form<sup>39</sup> for the operation of collective rights management or create obligations for the design of the corporate structure of CMOs. Some national laws may also require CMOs to be run as non-for-profit entities.<sup>40</sup>
- 97 Guideline 27(1)(a) only relates to rules that specifically regulate the corporate structure of CMOs. It does not replace the generally applicable choice-of-law rule for corporate law matters. The two conflict rules can in fact lead to different national laws where the choice-of-law rule of the deciding court on corporate law matters designates the law of the State of the incorporation as the

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Parliament and of the Council of 12 December 2006 on services in the internal market, [2006] L376/36.

39 For instance, Turkish law requires CMOs to be incorporated as “professional unions in accordance with the regulations and type statutes prepared by the Ministry of Culture and approved by the Board of Ministers”; Section 42 Law No. 5846 of 5 December 1951 on Intellectual and Artistic Works, as amended by Law No. 4110 of 7 June 1995.

40 For an overview of such systems see Copyright, Competition and Development, Report by the Max-Planck-Institute for Intellectual Property and Competition Law on behalf of WIPO (author Josef Drexl, December 2013), 232.

applicable law and the incorporation took place in another State than the State of the CMO's actual seat of administration. Hence, in such instances, the corporate law of the State of incorporation still applies in principle; but the law of the State of the CMO's actual seat of administration can limit the freedom of the founders to choose among different legal forms under the applicable corporate law and, especially, to design the concrete corporate structure of the CMO. Still, problems can arise where the applicable law under Guideline 27(1)(a) requires a particular corporate structure that is only available under the law of the State of the CMO's actual seat of administration. Such rule may indeed result in a requirement for a CMO to re-incorporate itself under the law of its actual seat of administration.

***Rights, conditions and principles concerning the relationship of the right holder with a CMO***

- 98 Guideline 27(1)(b) provides for a choice-of-law rule that makes the law of the State of the actual seat of the CMO applicable to all rights, conditions and principles concerning the relationship of the right holder with the CMO. To the extent that these rules include rights that define the contractual relationship of right holders with the CMO in the sense of mandatory contract law or rules that can be taken into account in the framework of rules against unfair contract terms, Guideline 27(1)(b) has to be considered a deviation from the freedom-of-choice rule of Guideline 21.
- 99 Regarding the rights and conditions for becoming a member of a CMO, Guideline 27(1)(b)(i) is situated at the borderline with Guideline 27(1)(a), since such rights and conditions, read in a broader sense, also affect the corporate structure of the CMO in the sense of the latter Guideline. Since both Guidelines lead to the application of the same law of the State of the CMO's actual seat of administration, a clear delimitation of the two rules is not needed. The scope of application of Guideline 27(1)(b)(i) is characterized by the fact that these rules specifically relate to access of rights holders to membership.<sup>41</sup> Yet this provision does not require that the concrete rule provides for a "right" of the right holder to become a member. It suffices that membership requirements can be addressed in a private law dispute. Equally, the person relying on such rules before a private law court does not have to be the right holder him/herself. It suffices that the law allows reliance on such rules, for instance, by a private person challenging the legality of the statutes of the CMO. Guidelines 27(1)(b)(ii) and (iii) address two sides of the same coin by referring to the

rights and conditions of entrusting rights to a CMO, on the one hand<sup>42</sup>, and for withdrawing such rights, on the other hand.<sup>43</sup>

- 100 *Inter alia*, Guideline 27(1)(b)(ii) applies to the statutory duty of a CMO to accept the collective management of a given right holder (see Hypothetical 2, above) and, more generally, to the principles that apply for accepting the management of rights of a given right holder. The latter may include thresholds of revenue generated from the management of rights, general principles such as non-discrimination and the important issue of whether CMOs can claim exclusive authorization from the right holders.<sup>44</sup> Some national laws may also limit the application of certain rules, including the limitation of the statutory duty of a CMO to accept the collective management to nationals.<sup>45</sup> Regarding their characterization, such rules can neither be regarded mandatory contract rules governed by Guidelines 21 and 22, nor does the *lex loci protectionis* govern such rules according to Guideline 25 on infringement. In addition, such rules cannot be considered rules on transferability

42 As an example, see Article 5(2), 1<sup>st</sup> sentence, EU CMO Directive (2014/26/EU), [2014] OJ L84/21, providing, among others, for a "right" of right holders "to authorize a collective management organization of their choice to manage the rights, categories of rights or types of works and other subject-matter of their choice, for the territories of their choice, irrespective of the Member State of nationality, residence or establishment of either the collective management organization or the right holder". See also Article 5(2), 2<sup>nd</sup> sentence, EU CMO Directive (2014/26/EU), [2014] OJ L84/21, providing that a CMO can only refuse the management of rights under 'objectively justified reasons'.

43 As an example, see Article 5(4) EU CMO Directive (2014/26/EU), [2014] OJ L84/21, providing for a "right" of right holders "to terminate the authorization to manage rights, categories of rights or types of works and other subject-matter granted to them to a collective management organization or to withdraw from a collective management organization and of the rights, categories of rights or types of works and other subject-matter of their choice, as determined pursuant to paragraph 2, for the territory of their choice, upon serving reasonable notice not exceeding six months".

44 Whether CMOs can claim exclusivity is also a matter of competition law.

45 In this regard, Article 5(2) EU Directive (2014/26/EU), [2014] OJ L84/21, referring to the "Member State of nationality, residence or establishment" can easily create the impression that the provision allows for discrimination against non-EU nationals. However, such a discrimination would have to be considered a violation of the national treatment obligation of international copyright law.

41 An example of such rights and conditions can be found in Article 6(2) European CMO Directive (2014/26/EU), [2014] OJ L84/21.

in the sense of Guideline 19. Thus, Guideline 27(1)(b) is indeed filling a gap left by the other Guidelines.

- 101** Guideline 27(1)(b)(iii) governs the rights and rules on the contractual freedom of right holders to withdraw rights or, more broadly, to terminate the contractual relationship with a given CMO. It is to be noted that competition law has produced considerable practice on these issues.<sup>46</sup> Such practice, however, can only directly be considered within the scope of the applicable competition law, as clarified by Guideline 27(4).
- 102** Guideline 27(1)(b)(iv) completes the contract-law related aspects by making the law of the State of the actual seat of administration also applicable to the requirements regarding the calculation and the distribution of the revenue.<sup>47</sup> *Inter alia*, such rules can stipulate by when the income must be distributed to right holders,<sup>48</sup> how the CMOs have to deal with income that cannot be distributed to the individual right holders<sup>49</sup>, whether right holders are protected against loss of their right to be remunerated after termination of their contract with a CMO or withdrawal of their rights,<sup>50</sup> whether CMOs are allowed to make certain deductions from the income such as for social or cultural purposes<sup>51</sup>, or whether and under which conditions part of the income can be transferred to persons that are not

holding any rights.<sup>52</sup> Regarding this latter issue, a problem of delimitation appears in relation to Guideline 19 regarding transferability. Whether a CMO, based on a decision of its governing bodies, can stipulate that part of the income will generally be paid to the representatives of a certain group of persons, such as the publishers in particular, without evidence that they are actual right holders, will be governed by the law of the State of the CMO's principal seat of administration according to Guideline 27(1)(b)(iv). Yet the preliminary question of whether the specific rights, such as the right to fair compensation, can actually be transferred<sup>53</sup> has to be decided according to the law of the State for which protection is sought according to Guideline 19 (see Hypothetical 3, above).

- 103** Finally, Guideline 27(1)(b)(v) relates to rules that require CMO to offer mechanisms of alternative dispute resolution to right holders.<sup>54</sup> Where such mechanisms are in place, the respective dispute settlement bodies can make use of Guideline 27(1)(b)(v) especially to the extent that the national law provides for more detailed rules on the scope of the disputes covered and the applicable procedural rules.
- 104** Guideline 27(1)(b) only provides for a non-exhaustive list of issues regarding the relationship of CMOs with their right holders to which the law of the State of the CMO's actual seat of administration applies. Still, it appears as rather unlikely that issues regarding the relationship with right holders will be at stake in private law proceedings that are not listed in Guideline 27(1)(b).

#### *The relationship between CMOs and users*

- 105** Guideline 27(2) contains an exhaustive list of issues regarding the activity of CMOs with regard to the

<sup>46</sup> Already in 1974, the CJEU established the need to protect right holders against the market power of a CMO by ensuring “a balance between the requirements of maximum freedom for authors, composers, and publishers to dispose of their works and that of effective management of their rights”. See CJEU, 127/73, ECLI:EU:C:1974:25 - *BRT v SABAM*, paragraph 8. This led to a test according to which a CMO can only impose those restrictions on the freedom to right holders, including the right to withdraw one's rights, that are “absolutely necessary” for the enjoyment of a position required for the CMO to carry out its activity. *Ibid.*, paragraphs 11 and 12 (criticizing in particular the assignment of rights over an extended period after the member's withdrawal from a CMO).

<sup>47</sup> As an example, see Article 11-13 EU CMO Directive (2014/26/EU), [2014] OJ L84/21.

<sup>48</sup> See Article 13(1)(2) EU CMO Directive (2014/26/EU), [2014] OJ L84/21.

<sup>49</sup> See Article 13(2) through (6) EU CMO Directive (2014/26/EU), [2014] OJ L84/21.

<sup>50</sup> Such protection is to be granted pursuant to Article 5(5) EU CMO Directive (2014/26/EU), [2014] OJ L84/21.

<sup>51</sup> See Article 12 EU CMO Directive (2014/26/EU), [2014] OJ L84/21.

<sup>52</sup> See, in particular, the CJEU copyright decisions in CJEU, C-277/10, ECLI:EU:C:2012:65 - *Luksan*; CJEU, C-572/13, ECLI:EU:C:2015:750 - *Hewlett-Packard v Reprobel*. See also the German Federal Supreme Court, I ZR 198/13 = BGHZ 210, 77, 21 April 2016 - *Verlegerbeteiligung* (no participation of publishers in the income generated from statutory remuneration rights, including the private copyright levy).

<sup>53</sup> This was answered in the negative by the CJEU for the right to fair compensation under EU copyright law by the CJEU. See CJEU, C-277/10, ECLI:EU:C:2012:65 - *Luksan*, paragraphs 93 and 100 (holding that the right holder cannot waive the right to fair remuneration in the framework of the private copying exemption).

<sup>54</sup> See, in particular, Article 34(1) EU CMO Directive (2014/26/EU), [2014] OJ L84/21, which also applies to conflicts between users and the CMO as well as among CMOs.



use of works and rights to which the law of the State for which protection is sought (*lex loci protectionis*) applies.

**106** This choice of law is particularly convincing in the context of Guideline 27(2)(a) relating to the presumption that a CMO is empowered to seek protection for certain works or subject-matter of related rights. A CMO will in particular need to rely on such a presumption when it aims to enforce rights of a multitude of right holders against alleged infringers in cases of mass uses of rights. According to Guideline 27(2)(a) and Guideline 25, the same law applies to infringement and the question of whether a CMO can be presumed to be mandated with the enforcement of rights. The choice-of-law rule in Guideline 27(2)(a) is not questioned by the departure from the *lex loci protectionis* for initial ownership in copyright cases pursuant to Guideline 20(2)(a) regarding initial ownership, since CMOs are not initial owners. For the question of whether they are effectively mandated to claim rights, it is more relevant whether the rights are transferable. According to Guideline 19, transferability is also governed by the *lex loci protectionis*.

**107** National laws can promote access to the use of works and the subject-matter of related rights by exceptions and limitations to exclusive rights. Still, they may take account of the interest of right holders to fair compensation by providing for statutory remuneration rights. To manage the collection of such remuneration from the users and distribution of the income to the right holders, legislatures often make use of mandatory collective rights management. Equally, legislatures sometimes also provide for such management for the grant of licenses for the use of exclusive rights.<sup>55</sup> In both cases mandatory collective rights management strikes a balance between the interests of users in freely using certain works or subject-matter of protection or in getting licenses from a central licensing unit, on the one hand, with the interest of right holders in fair compensation, on the other hand. Application of the *lex loci protectionis* to mandatory collective rights management according to Guideline 27(2)(b) guarantees uniformity of access and remuneration in a given territory irrespective of the nationality or residence of right holders or the seat of the CMO. The same territoriality approach is also justified where the legislature chooses mandatory collective rights management as a means to protect the interest of original right holders against the superior bargaining

power of a representative of the copyright industry to which the rights may otherwise be transferred or licensed without adequate remuneration. This is, for instance, the objective of the introduction of the unwaivable remuneration right of authors and performers regarding the rental of a phonogram or a film, where the exclusive right has been licensed to a phonogram or a film producer, for which EU law provides for mandatory collective rights management (see Hypothetical 3, above).

**108** The same policy arguments explain why Guideline 27(2)(c) also makes the *lex loci protectionis* applicable to rules that empower CMOs to grant licenses or collect statutory remuneration without prior consent of the right holder (so-called “extended collective licensing or management”).<sup>56</sup> Such extended collective licensing systems can be particularly helpful to enable the digitization of orphan<sup>57</sup> and out-of-commerce works.<sup>58</sup>

**109** Application of the *lex loci protectionis* is particularly appropriate where rules on collective rights management specifically protect the interest of rights of the users against the bargaining power of CMOs. Such rules can be grouped into two categories that are addressed by Guideline 27(2)(d) and (e) respectively.

**110** The first group of rules, addressed in Guideline 27(2)(d), relate to the conditions under which users can claim the licensing of rights. Such rules can for instance state general principles of licensing, including good-faith negotiation as well as principles

<sup>55</sup> For EU law, this is the case for the cable retransmission right according to Article 9(1) Council Directive of 27 September 1993 on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission, [1993] OJ L248/15.

<sup>56</sup> Such systems are particularly known from the copyright laws in the Nordic States. See also Article 9(2) EU Satellite and Cable Directive, [1993] OJ L248/15, according to which a CMO that manages cable retransmission rights for the same category will be deemed to be mandated to manage also the rights of right holders who have not given a prior mandate for such management to this CMO.

<sup>57</sup> National jurisdictions in the EU, especially the Nordic States, have introduced extended collective licensing schemes for promoting the digitization of orphan works. The EU Orphan Works Directive does not mandate the introduction of such systems, but safeguards existing national extended collective licensing schemes. See Recital 24 and Article 1(5) Directive 2012/28/EU of the European Parliament and of the Council of 25 October 2012 on certain permitted uses of orphan works, [2012] OJ L299/5.

<sup>58</sup> On the level of EU law, Article 8(1) Directive (EU) 2019/790 of the European Parliament and of the Council of 17 April 2019 on copyright and related rights in the Digital Single Market, [2019] OJ L130/92, and amending Directives 96/9/EC, [1996] OJ L77/20, and 2001/29/EC, [2001] L167/10, now provides for the grant of extended collective licenses for out-of-commerce works to cultural heritage institutions.

of objectivity and non-discrimination.<sup>59</sup> Some States provide for an express duty to license.<sup>60</sup> This Guideline also relates to requirements concerning the terms of licensing contracts.

**111** Rules regarding the requirements on the calculation of the royalty rates and statutory remuneration, as addressed by Guideline 27(2)(e), are most important in practice. Disputes typically arise on the appropriateness of the royalty rates of CMOs. Guideline 27(2)(e) only relates to the substantive standards of control of the royalty rates such as the EU rule on appropriateness and reasonableness in relation to the economic value of the use of the rights in trade<sup>61</sup>, but not to procedural issues. Procedures, however, matter enormously from a private law perspective against the backdrop of a large diversity of specialized dispute settlement bodies that can be found in different jurisdictions. This explains why, to guarantee a functioning system of private law control, it is important that the rules on jurisdiction enable the dispute settlement bodies of the *loci protectionis* to decide on such matters. To achieve this, Guideline 6 provides for optional jurisdiction of the courts of the States where the use takes place.<sup>62</sup> This allows the user or the CMO initiating proceedings on the reasonableness of royalty rates to seize the most appropriate dispute settlement body, which will then apply its own substantive law as a benchmark for the appropriateness of the royalty rates pursuant to Guideline 27(2)(e).

**112** Moreover, it has to be noted that, within the EU, application of the *lex loci protectionis* of Guideline 27(2)(d) and (e) can lead to the application of different national laws in private law disputes, on the one hand, and administrative proceedings, on the other. Under Guideline 27(2)(d) and (e), the claimant will rely on the law of the Member State for which the license is sought or for which the CMO seeks statutory remuneration, while the law of the Member State where the CMO is established applies according to Article 36(1) EU CMO Directive to the extent that national authorities enforce the national rules adopted for the implementation of Article 16 EU CMO Directive on the licensing rates and the setting of tariffs by CMOs in relation to users. The reason for the latter is that the Directive generally seeks to liberalize free provision of collective rights management services in the EU internal market. It therefore fully concentrates administrative control in the hands of the authority of the Member State where the CMO is established and, moreover, provides that such control will only be exercised based on the national rules of that State. Yet such internal market considerations cannot justify a deviation of the application of the *lex loci protectionis* for rules that are designed to be applied globally. Yet Guideline 27(2)(d) and (e) also provides for the appropriate choice-of-law rules between EU Member States. These rules guarantee that, where a dispute relates to the licensing of rights or the collection of statutory remuneration rights under the law of an EU Member State, the law of this State will also govern the substantive law principles concerning the control of the CMO in this context. In addition, since the Directive is not intended to change private international law rules<sup>63</sup>, Guideline 27(2)(d) and (e) is not in conflict with Article 36(1) EU CMO Directive.

### *The law applicable to multi-territorial licensing*

**113** Guideline 27 is not providing for any specific choice-of-law rules concerning multi-territorial licensing especially of online rights by CMOs despite the fact that EU Member States have by now implemented substantive rules on such multi-territorial licensing of online rights for works in music based on Title III of the EU CMO Directive.<sup>64</sup> The Guidelines are drafted on the assumption that the general rules of Guideline 27 and Guidelines 21 and 22 suffice to provide for adequate choice-of-law rules for issues concerning multi-territorial licensing.

<sup>59</sup> See especially Article 16 EU CMO Directive (2014/26/EU), [2014] OJ L84/21.

<sup>60</sup> Such a duty to license has traditionally been part of the German rights management law. This duty is maintained under the law implementing the EU CMO Directive. See Section 34 German Act on Collective Rights Management Organizations of 24 May 2016. Other jurisdictions may recognize a duty to license as a matter of competition law. This is the case also in the US under paragraph VI of the ASCAP Consent Decree: Second Amended Final Judgment entered in *United States v. ASCAP* (S.D. N.Y. 2001).

<sup>61</sup> See Article 16(2)(2) EU CMO Directive (2014/26/EU), [2014] OJ L84/21.

<sup>62</sup> Guideline 5 takes inspiration from the CJEU judgment in *Austro-Mechana*, which characterized the action of a CMO for payment of the private copying levy as a delictual or quasi-delictual conflict covered by Article 5(3) Brussels I Regulation No. 44/2001, [2001] OJ L12/1 (now Article 7(2) Brussels Ia Regulation No. 1215/2012, [2012] OJ L351/1). See CJEU, C-572/14, ECLI:EU:C:2016:286 - *Austro-Mechana v Amazon EU*. Against the backdrop of this judgment, Guideline 6 can be understood as a clarification of Guideline 5.

<sup>63</sup> Recital 56 EU CMO Directive (2014/26/EU), [2014] OJ L84/21.

<sup>64</sup> Articles 23-32 EU CMO Directive (2014/26/EU), [2014] OJ L84/21.

114 In particular, Guideline 27(1) constitutes the adequate private international law framework for cases in which one CMO, thereby acting on behalf of its right holders, seeks to mandate another CMO with the multi-territorial licensing of its repertoire. In this context, Article 30 EU CMO Directive is most important. Article 30(1) obliges Member States to ensure that CMOs that grant multi-territorial licenses are “required to agree” to a request by another CMO to enter into a representation agreement for the multi-territorial licensing of the repertoire of the requesting CMO. The most appropriate implementation of this provision consists in a private law duty to contract.<sup>65</sup> Hence, pursuant to Guideline 27(1)(b)(ii), the applicable law to the right of a CMO to request another CMO to enter into an agreement of multi-territorial licensing is the law of the State of the actual seat of administration of the requested CMO.

115 More complex issues concerning multi-territorial licensing seem to arise in the context of Guideline 27(2)(d) and (e). These rules will lead to parallel application of several national laws as far as the relationships between the CMO and users are concerned. The same phenomenon will appear with regard to jurisdiction, since Guideline 6 would especially allow users to initiate parallel proceedings in different fora. Yet these consequences are not *per se* inappropriate, even where a CMO grants a uniform royalty rate for the entirety of the territory of the States covered. In such instances, users could question the appropriateness of the royalty rates before any of the competent Courts pursuant to Guideline 6 and any of the respective laws applicable under Guideline 27(2)(d) and (e).

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## D. Other Provisions

### 28. Public Policy

**The application of the law determined under these Guidelines may be refused only to the extent that its effects would be manifestly contrary to the public policy of the forum.**

#### See as reference provisions

§ 322 ALI Principles

Art 3:902 CLIP Principles

Art 313 Joint Korean-Japanese Principles

<sup>65</sup> See, for instance, Section 69(1) German Act on Collective Rights Management Organizations of 24 May 2016.

### Short comments

116 The concept of public policy is well established in almost all jurisdictions. Ever since the 1956 Hague Convention on the law applicable to maintenance obligations towards children, similar – if not quasi-identical – wording has been employed in numerous international choice of law instruments when drafting the public policy exception. The rationale underlying this exception and the effects of its application are equivalent to the implications of overriding mandatory provisions of the forum. In both cases, the law determined under the choice of law rules provided by the Guidelines can be disregarded. Nevertheless, both mechanisms remain different. Whereas overriding mandatory provisions preempt the choice of law rules, the public policy exception functions as a final safeguard that allows a court to refuse the application of a provision of the law of any State specified by the choice of law rules provided for by the Guidelines. The law designated should only be disregarded in cases of clear incompatibility with the public policy of the forum. In line with the usual drafting of this safeguard in international instruments, under the Guidelines, the exclusion is applied only if the incompatibility is “manifest”.

117 Guideline 28 requires to identify, on the one hand, the forum’s public policy and, on the other hand, the manifest incompatibility between the designated law and the public policy applied. Each step must be followed. The identification of the public policy can be difficult because it is not a pure intellectual property question but a broader question of the social, cultural and economic policies of the forum State. It is subject to gradual change as long as the values of the society also change in the course of time. The mere incompatibility is not enough to exclude, according to the guidelines, the designated rule. Then, the manifest incompatibility needs a specific autonomous appreciation.

### Extended comments

#### *Hypothetical*

An infringement is committed in X. The infringer is from Y. The plaintiff decides to bring an infringement claim before the courts of State Y. Under Guideline 25, the law of X is applicable, protection being sought for X. Under X’s law, punitive damages can be ordered. If punitive damages are considered as being manifestly contrary to Y’s public policy, the provisions of X providing for punitive damages are not applied on that specific question. Y’s law is applicable only in order to determine that punitive damages are not allowed.

For the rest, X's law remains applicable, since its effects would not be manifestly contrary to the public policy of Y's law.<sup>66</sup>

**118** Since the choice of law rules are abstract and may potentially lead to the application of the law of any State in the world, it is possible that provisions of the law designated are in contradiction with basic values and fundamental principles of the forum State. The public policy exception allows a court to refuse the application of provisions of the designated foreign law. The public policy exception concerns basic values and fundamental principles of the law of the forum State, such as those regarding the protection of intellectual property rights and their balancing with freedom of expression and other fundamental rights. The concept is the same as the one used as a limit to the recognition and enforcement of foreign judgments in Guideline 34 (1). It should be observed that the way in which a balance is achieved between the protection of intellectual property and the safeguard of the fundamental rights that may be involved in these situations varies among States. Such a balance is subject to political, economic and social change. This, in turn, may affect the way in which the judge applies those factors to the specific facts of the case.<sup>67</sup>

**119** Once public policy is identified, the application of the foreign law to the case can be refused only if it is manifestly contrary to the public policy of the forum. First, the exception is limited to the public policy of the forum State. Second, this safeguard requires more than a mere incompatibility with the public policy of the forum. This second precondition requires the court to find special grounds for upholding an objection to the application of foreign law. The term “manifestly” is intended to make it clear that this device is an exception that is subject to restrictive interpretation. In practice, however, the provision does not provide any additional guidance as to its

<sup>66</sup> See French Court of Cassation, n° 09-13303, (2010) considering that punitive damages as such are not contrary to French Public Order, except if they are disproportionate. See also, Paris Court of Appeal, Feb. 1<sup>st</sup> 1989, RIDA oct. 1989, paragraph 301. See also: Card Reader Case, Japanese Supreme Court Decision (Heisei 14.9.26) Minshu vol. 56 no. 7, paragraph 1551 ff, in that case the Japanese Supreme Court considered that the application of the U.S. Patent Act is contrary to “public order” as described in Article 33 of Horei.

<sup>67</sup> The draft of the Guideline is in line with the text of the public policy exception in international conventions on choice of law, such as the conventions adopted by the Hague Conference of Private International law. Such a wording has also become common to many national and regional codifications of choice of law rule, as illustrated in the EU by Article 26 of the Rome II Regulation.

application. In consequence, the interpretation of the criterion of manifest incompatibility remains subject to case-by-case analysis. Only serious breaches of essential values and fundamental principles of the law of the forum would justify intervention by way of this exceptional clause.

**120** Once the incompatibility has been identified, the effect of the public policy's exception is dual. The relevant provisions of the law designated are not applied. This is the negative effect of the exception leading to the exclusion of the law designated. Secondly, a decision is to be adopted as to the substance of the matter. The Guidelines do not solve this issue and hence the private international law of the forum should be determinative. In many States the law of the forum shall be applied to decide on the substance of the matter instead of the law designated. In other States more flexible approaches are possible, including replacing the otherwise applicable law with the law of other closely connected that is not contrary to the public policy of the forum. This is the positive effect of the exception. Nevertheless, such a substitution is limited to the part of the applicable law being manifestly contrary to the public policy of the forum. For the rest, the originally designated law remains applicable.

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## 29. Overriding Mandatory Provisions

1. **Nothing in these Guidelines shall restrict the application of the overriding mandatory provisions of the law of the forum.**
2. **When applying under these Guidelines the law of a State to a contract, the court may give effect to the law of another State where the obligations arising out of the contract have to be or have been performed.**

### See as reference provisions

§ 323 ALI Principles

Art 3:901 CLIP Principles

Art 312 Joint Korean-Japanese Principles

### Short comments

**121** Overriding mandatory provisions limit choice of law rules, by preempting the law determined under these Guidelines. Overriding mandatory provisions are directly applicable to situations falling within their scope, irrespective of the law designated by the otherwise applicable choice of law rule. The effect of overriding mandatory provisions of the forum is equivalent to the public policy exception. Indeed, both mechanisms exclude the application of provisions of the foreign law determined by the choice of law rule. Nevertheless, overriding

mandatory provisions are directly applicable. They preempt the choice of law rule, which is not applied.

- 122 The effect of overriding mandatory provisions varies depending on their origin. When they belong to the law of the forum, judges are under a duty to apply them to all situations falling within their scope. They prevail over the otherwise applicable law. Additionally, in situations concerning contracts, the possibility to give effect to overriding mandatory provisions of third States is also envisaged with limitations. In certain situations, Courts may give effect to such rules after having taken into account the connection between the dispute and the overriding mandatory provisions and all other relevant factors, such as the nature and purpose of those provisions. The latter possibility is only envisaged with regard to contracts. Only overriding mandatory provisions belonging to the law of the State, where the obligations arising out of the contract have to be or have been performed, may preempt the *lex contractus*.

#### Extended comments

- 123 The concept of overriding mandatory provisions is much more restrictive than the broader concept of “mandatory rules”, which is relevant with regard to domestic situations. Overriding mandatory rules constitute an exception and hence are subject to restrictive interpretation. In this context, they have to be distinguished from local mandatory provisions. Only a small part of local mandatory provisions may be characterized as overriding mandatory provisions, preempting the choice of law rules. As an example of such a restrictive understanding of the concept, it can be mentioned that under EU law, overriding mandatory rules are defined as being “provisions the respect for which is regarded as crucial by a country for safeguarding its public interests, such as its political, social or economic organization, to such an extent that they are applicable to any situation falling within their scope, irrespective of the law otherwise applicable” (Rome I Regulation Article 9 1).

- 124 For instance, under French law, certain moral rights have been considered as being an overriding mandatory rule.<sup>68</sup> As a consequence, it prevails over the otherwise applicable law. In that specific case, US law was applicable in accordance with the relevant French choice of law rule. Nevertheless, the French Court applied provisions of French law that were regarded as overriding mandatory rules and on that basis such provisions prevailed over US law designated by the French choice of law rule.

- 125 Identification of overriding mandatory provisions is usually a complex and challenging question, to the extent that legislation does not expressly made clear that it applies to cross-border situations irrespective of the law otherwise applicable. Indeed, the legislature rarely indicates the overriding mandatory nature of the provisions. One remarkable exception is Section 32 b of the German Act on Copyright and Related Right, which states that equitable remuneration is compulsory if German law would be applicable to the contract of use in the absence of a choice of law or to the extent that the agreement covers significant acts of use within the territory to which the Act applies.

- 126 Under Guideline 29(1) overriding mandatory rules of the law of the forum prevail always within their scope of application. Once the identification is made, the spatial scope of these overriding mandatory rules has to be determined. In the French *Huston* case mentioned above, the overriding mandatory rule was applicable for protection sought in France. If the *lex loci protectionis* would have been applicable, overriding mandatory rules would have been useless in that case.

- 127 Under Guideline 29(2) a court may also give effect to overriding mandatory provisions of the law of a third State in situations involving an international contract. The term “give effect” may be found in this context in Article 9(3) of the Rome I Regulation. Also in Guideline 29 the term “to apply” must be distinguished from the concept “to give effect”. As explained in the Lagarde-Guiliano Report<sup>69</sup>, “the words “effect may be given” impose on the court the extremely delicate task of combining the mandatory provisions with the law normally applicable to the contract in the particular situation in question”.

- 128 Only overriding mandatory provisions belonging to the law of another State where the obligations arising out of the contract have to be or have been performed may preempt the *lex contractus*. This limitation is in line with article 9 (3) of Rome I Regulation. According to this provision “effect may be given to the overriding mandatory provisions of the law of the country where the obligations arising out of the contract have to be or have been performed”. However, it is important to note that when interpreting this provision the CJEU has established that it “does not preclude overriding mandatory provisions of a State other than the State of the forum or the State where the obligations arising out of the contract have to be or have been

68 French Court of Cassation, n° 89-1952 89-19725 (1991) - *Huston* case.

69 Report on the Convention of the law applicable to contractual obligations, Eur Lex 319080Y1031(01).

performed from being taken into account as a matter of fact, in so far as this is provided for by a substantive rule of the law that is applicable to the contract pursuant to the Regulation”.<sup>70</sup>

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### 30. Renvoi

**The application of the law of any State determined under these Guidelines means the application of the rules of law in force in that State other than its rules of private international law.**

#### See as reference provisions

§ 324 ALI Principles

Art 3:903 CLIP Principles

Art 310 Joint Korean-Japanese Principles

#### Short comments

- 129 Guideline 30 solves the question of the nature and scope of the referral by the choice of law rule. In particular, it addresses the issue whether the referral covers only substantial rules or also private international rules. The *renvoi* doctrine is based on the assumption that the application of the law of the State designated by the choice of law rules includes the application of its rules of private international law. Such a mechanism is complex and may lead to unpredictable results. Therefore, Guideline 30 excludes *renvoi* and provides that the application of law designated by the Guidelines means the application of the rules of law in force in that State other than its rules of private international law.

#### Extended comments

##### *Hypothetical*

A work created by an artist from A and published first in A is infringed in State B. Under Guideline 25, B’s law is applicable, protection being sought in B. Nevertheless under B’s private international law, “*copyright in a published work shall be governed by the legislation of the State in which the work is first made lawfully accessible to the public*”. If *renvoi* were applicable, A’s law would have to be applied to that issue. The exclusion of the *renvoi* excludes to apply B’s choice of law rules, the application of B’s law being limited to substantial B rules.

- 130 Guideline 30 and its exclusion of *renvoi* is in line with most modern instruments in the field, such as the Hague conventions on the law applicable to non-contractual obligations and the EU Rome Regulations

on contractual and non-contractual obligation. For instance, the choice of law rules of the Hague Convention of 2 October 1973 on the Law Applicable to Products Liability establish that the applicable law shall be the “internal law” of the designated State (see, e.g., articles 4, 5 and 6). Additionally, pursuant to Article 24 of the Rome II Regulation “The application of the law of any country specified by this Regulation means the application of the rules of law in force in that State other than its rules of private international law”. A similar rule may be found in Article 20 of the Rome I Regulation. *Renvoi* is also excluded under article 8 of the Hague Principles on Choice of Law in International Commercial Contracts. The exclusion of *renvoi* is deemed to foster legal certainty and predictability.

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### 31. Arbitrability

**When assessing the arbitrability of disputes concerning intellectual property rights, courts and arbitral tribunals shall take into consideration the law of the arbitration, to the extent that the rights in dispute have a close connection with it, and that of the State of protection, particularly insofar as the award has to be recognized and enforced in that State.**

#### Short comments

- 131 Guideline 31 addresses the issue of arbitrability of intellectual property disputes, on which significant differences exist between national legal systems, such differences being a considerable source of uncertainty in international trade. In this respect, the Guideline seeks to provide direction to adjudicators, while at the same time allowing them a certain degree of flexibility. It also bears in mind the need to ensure the enforceability of arbitral awards rendered on matters of intellectual property.
- 132 In view of this, the Guideline provides that judges and arbitrators shall take into consideration the provisions of the two laws that are more relevant to govern the said issue. These laws are, on the one hand, the *lex arbitri*, which in a large number of legal systems is that of the State of the seat of the arbitration, whose courts may set the award aside for lack of arbitrability of the subject matter of the dispute; and, on the other hand, the *lex protectionis*, i.e., the law of the State for the territory of which protection of the disputed right is sought, insofar as compliance with the provisions of that law is required in order to safeguard the enforceability of the award in that State.

<sup>70</sup> Judgment of the CJEU, C-135/15, EU:C:2016:774 – *Nikiforidis*, paragraph 51.

**Extended comments****Hypothetical 1**

A sues B for the alleged breach of a license concerning the use of a patent registered in France before an arbitral tribunal sitting in Belgium. B raises as a defense the invalidity of that patent. Under both the *lex arbitri* and the *lex protectionis* the arbitral tribunal may decide on the validity of the patent, although pursuant to the former of those laws such a decision may only be rendered with *inter partes* effects. The arbitral tribunal is free to rule on the defense, since none of the laws involved rejects its arbitrability and hence, from this point of view, the enforceability of the award is ensured in both States.

**Hypothetical 2**

A sues B for the alleged infringement of a trademark registered in Germany before an arbitral tribunal sitting in Switzerland. The issue of the validity of the trademark is raised by the defendant in the proceedings. Although Swiss law allows the arbitral tribunal to rule on that issue, under German law the matter is not arbitrable and, accordingly, the enforcement of an arbitral award that ruled on that issue could be refused in Germany on the basis of Article V(2)(a) of the New York Convention.<sup>71</sup> Insofar as the award is intended to be enforced in Germany, the arbitral tribunal should take into consideration German law when ruling on its own jurisdiction.

**The contemporary trend towards the liberalization of intellectual property arbitration**

**133** Parties may choose arbitration as an alternative to court litigation in intellectual property disputes, *inter alia*, for the following reasons: the concentration of proceedings in disputes arising from the cross-border exploitation of intellectual property rights; the avoidance of parallel litigation before national courts and inconsistent decisions ensuing therefrom; the confidentiality and greater expediency of the proceedings; the neutrality and expertise of adjudicators; and the extended cross-border enforceability of arbitral awards allowed by the New York Convention.

**134** A trend towards the liberalization of intellectual property arbitration has thus emerged over the past few decades. A recent expression of this was the creation of a Mediation and Arbitration Center seated in Lisbon and Ljubljana by Article 35 of the

Agreement on a Unified Patent Court entered into by a number of Member States of the European Union on 19 February 2013.<sup>72</sup>

**The different national approaches with respect to the arbitrability of intellectual property disputes**

**135** Intellectual property rights are, to a large extent, monopolies on the use of intangible goods, which affect competition within the territory of the State that grants them. For this reason, jurisdiction over intellectual property disputes is often reserved to the courts of the granting State. In those cases, no arbitration of such disputes is allowed, at least in what concerns registered rights. This is the case, e.g., of South Africa as regards patent matters.<sup>73</sup>

**136** Other States allow arbitration of disputes concerning such rights, but set substantial limitations thereto, e.g., by not permitting arbitral tribunals to rule on their validity, as happens in Germany, where the jurisdiction of the Federal Patent Court is generally held to be exclusive in what concerns validity issues;<sup>74</sup> or by empowering arbitral tribunals to do so only with *inter partes* effects, as is the case of France,<sup>75</sup> Portugal,<sup>76</sup> and the United States<sup>77</sup>.

**137** Full arbitrability of such disputes, including the validity of industrial property titles, is nevertheless allowed by a third group of States, which includes, e.g., Belgium.<sup>78</sup>

**138** Considerable differences also exist in what concerns the arbitrability of claims concerning non-registered rights: while some States, such as France, deem moral rights as inalienable, and thus disputes concerning such rights are in principle not arbitrable, other States allow certain transactions regarding moral rights, such as consent to the modification of a literary or artistic work. Disputes arising from such transactions are thus arbitrable in those States.<sup>79</sup>

<sup>72</sup> [2013] OJ C175/1.

<sup>73</sup> See article 18(1) of the South African Patent Act.

<sup>74</sup> See § 65 of the German Patent Act.

<sup>75</sup> See the ruling of the French Supreme Court of 28 February 2008, *Société Liv Hidravlika D.O.O v. S.A. Diebolt*.

<sup>76</sup> See Article 3(3) of Law no. 62/2011, of 12 December 2011, as amended by Decree-Law no. 110/2018, of 10 December 2018.

<sup>77</sup> See Section 294 of the Patent Act.

<sup>78</sup> See Article 51(1) of the Patent Law.

<sup>79</sup> See, for instance, the ruling of the Supreme Court of Canada in *Desputeaux v. Éditions Chouette*, 1 SCR 178 [2003].

<sup>71</sup> See New York Convention on the Enforcement and Recognition of Foreign Arbitral Awards (1958).

139 Claims concerning patrimonial rights are generally regarded as arbitrable.<sup>80</sup> However, since *droit de suite* is a non-waivable patrimonial right, it is not an arbitrable matter in legal systems, such as the French one, in which only disputes concerning *droits disponibles* are arbitrable.<sup>81</sup>

#### *The need for uniform conflict rules*

140 The situation described above is a source of uncertainty with respect to the enforceability of arbitral awards on intellectual property disputes. There is thus a clear need for uniform conflict of laws rules on the issue of arbitrability of intellectual property disputes, even if only soft law ones.

141 Such is the purpose of the present Guideline. It is addressed both to State courts and arbitral tribunals: the former may have to determine the arbitrability of a dispute on intellectual property rights either in annulment or enforcement proceedings; the latter may have to do so when assessing their own jurisdiction under the *Kompetenz-Kompetenz* rule.

#### *The relevant laws*

142 As mentioned above, two laws are most strongly entitled to govern this issue: the *lex arbitri* (i.e., the law governing the arbitration), the application of which ensures the enforceability of the arbitral award in the State of the seat of the tribunal; and the *lex protectionis* (i.e., the law of the State for the territory of which protection of the disputed rights is sought), compliance with which may be necessary in order to safeguard the enforceability of its award.

143 The present Guideline recognizes the need to take into consideration both laws when deciding issues of arbitrability of intellectual property disputes, although some restraint should be adopted in respect of both of them.

144 Regarding the *lex arbitri*, its competence to govern the issue at stake may, in fact, be limited if the intellectual property rights in issue have no relationship with that law, e.g., because it is the law of the arbitral seat and this has been chosen by the parties merely because it provides a neutral forum regarding the interests in dispute.

145 The *lex protectionis* may also not be decisive with respect to the issues at stake if, for example, the arbitral award is not intended for recognition in a State where the disputed right is registered.

80 See, e.g., in France, Article L 331-1 of the French Code of Intellectual Property.

81 See Article 2059 of the French Civil Code.

146 Guideline 31 is thus meant to serve both as an orientation to adjudicators and as a rule of restraint, in cases where the connection with the abovementioned laws is scant, while simultaneously giving courts and arbitrators sufficient discretion to take into consideration the particular circumstances of the case.

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