INTELLECTUAL PROPERTY AND PRIVATE INTERNATIONAL LAW

TERRITORIALITY PRINCIPLE

(19 December 2013)
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<td>Territoriality, National Treatment, Personal Jurisdiction</td>
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THREE PILLARS OF PIL

JURISDICTION OF NATIONAL COURTS

CHOICE OF GOVERNING LAW

RECOGNITION AND ENFORCEMENT
HYPOTHETICAL CASE

• Alex, a Russian citizen, during his exchange programme in Japan, without authorisation modified a film ‘James Bond: Dr. No’ (1962) and added some funny elements.

• Alex made 100 copies of it and sold 50 of them to Japanese friends and the rest of them (50) in China during his summer holidays in 2012.

• US company Eon Productions, a film producer, sues Alex for copyright infringement in a Russian court.

Assuming that a Russian court can hear the case, Which law should be applied?
## WHY DOES CHOICE-OF-LAW MATTER?

<table>
<thead>
<tr>
<th></th>
<th>JAPAN</th>
<th>US</th>
<th>RUSSIA</th>
<th>CHINA</th>
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<tr>
<td><strong>COPYRIGHT EXISTENCE</strong></td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
<td>yes</td>
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<tr>
<td><strong>DURATION OF PROTECTION</strong></td>
<td>70 years</td>
<td>95 years</td>
<td>70 years</td>
<td>50 years</td>
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<tr>
<td><strong>SCOPE: DOES ANY EXCEPTION APPLY?</strong></td>
<td>no</td>
<td>no</td>
<td>maybe</td>
<td>maybe</td>
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<td><strong>STANDING IN COURT</strong></td>
<td>Moral rights: Director &amp; authors (?)</td>
<td>Producer has all rights (?)</td>
<td>(?)</td>
<td>(?)</td>
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<td><strong>LIABILITY &amp; REMEDIES</strong></td>
<td>Reasonable damages</td>
<td>Statutory damages</td>
<td>(Factual damages)</td>
<td>(no damages?)</td>
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THE LAW OF THE FORUM

\textit{Lex fori}

• In PIL, the general principle is that the law of forum applies.

  CLIP Art. 3:101: “The law applicable to procedural matters, including procurement of evidence, is the law of the state where the court seized with the proceedings is situated”

• **Legal justification?**
  
  a) procedures before a domestic court are conducted under the law of the forum. In most cases, courts make decisions under their own substantive law

  b) constitutional role and public order (courts exercise public powers)

• **Economic justification?**
  
  efficient conduct of proceedings

• **Sociological justification?**
  
  Expectations of the parties and the society
TERRITORIALITY AND EXTRATERRITORIALITY
DIFFERENT CONNOTATIONS OF “TERRITORIALITY” (1)

The notion of “Territoriality” has been used in 3 different contexts:

1. National statutes apply only within the territory of an enacting state - they do not extend to territories of other states.

Every country has its own economic and social policies that are implemented by their statutes.

The supporters of such a statutist approach argue that each country is interested in regulating the domestic matters by its own statutes.

However, only in exceptional cases foreign law could be applied… Question: under what conditions, if at all, should a court of state A apply the law of state B?
2. IP rights are created by virtue of national statutes, and therefore have legal effects only within the enacting state (“territoriality of IPRs”)

3. In PIL, it is considered that courts have powers only within territory of the forum state and follow their own laws. However, sometimes foreign law has to be applied.

In the context of IP, Art. 5(2) of the Berne Convention has been referred to as entrenching “territoriality principle” (the law of the country for which protection is sought)
DIFFERENT CONNOTATIONS OF “TERRITORIALITY” (3)

- Conflicting opinions among the IP experts and private internationals law experts (esp. during the negotiations of the Hague Judgments Convention)
Example: US Copyright act contains a notion of “performance” of a work.

Usually, it was meant to refer to any act of performance within the US.

The development of satellite technology reshaped the definition of performance:

performance occurs at every “step in the process by which a protected work wends its way to its audience”

i.e., place of initiation of a signal as well as place of receipt (*National League*)
EXTRATERRITORIALITY (2)

• In fact, we have to understand that most countries’ IP statutes may have extraterritorial provisions.

• In enforcement of IP rights, often courts may have to render decisions which have cross-border effects (e.g., injunctions to shut down the website).
CHOICE-OF-LAW PRINCIPLES FOR CROSS-BORDER IP DISPUTES
CHOICE-OF-LAW PROCESS

a) A court has first of all determine if it has jurisdiction

b) Which country’s choice-of-law rules apply?

c) Which choice of law rule applies?

d) What if there is no appropriate choice-of-law rule? e.g., in Japanese PIL Act (2006) there are no special rules specifically tailored for IP disputes
MAIN CHOICE-OF LAW PRINCIPLES in cross-border IP litigation

• Closest connection principle

• The law of the protecting country (lex loci protectionis)

• The law of the country of origin of a work (lex originis)
CLOSEST CONNECTION PRINCIPLE

• Civil law countries: the law of the state with which the dispute has closest connection

• German Legal thinker Savigny (1779-1861): “the seat of legal relationship”

• Closest connection could be considered as the most general choice-of-law rule

• In the US: Second Restatement: the law of the state which has the most significant connection with the parties and the transaction
THE LAW OF THE PROTECTING COUNTRY (1)  
(lex loci protectionis)

• Article 5(2) of the Berne Convention:

The enjoyment and the exercise of these rights shall not be subject to any formality; such enjoyment and such exercise shall be independent of the existence of protection in the country of origin of the work. Consequently, apart from the provisions of this Convention, the extent of protection, as well as the means of redress afforded to the author to protect his rights, shall be governed exclusively by the laws of the country where protection is claimed.

• (Rome Convention has similar provisions for related rights)

• Many discussions over the last few decades:
  Is it a jurisdiction rule? Is it a choice-of-law rule?
THE LAW OF THE PROTECTING COUNTRY (1)
Possible interpretations of *lex loci protectionis*

- There have been many attempts to explain the meaning of Art. 5(2) of the Berne Convention:
  - *Lex fori* (law of the place of forum)?
  - *Lex loci delicti* (law of the place of tort)?
  - *Lex loci protectionis* (law of protecting country)?
  - *Lex originis* (place of origin of the work)?
  - No applicable law rule?
THE LAW OF THE PROTECTING COUNTRY (1)  
(*lex loci protectionis*)

- For a very long time it was not clear what is the scope of application of this rule: What issues are governed by the law of the protecting country?

- In cross-border IP disputes, there are various issues that have to decided on the basis of a substantive law of a particular country:
  - Conditions for the protection of IP?
  - Initial title/ownership of IP? e.g., co-authored works, employer-employee relations
  - Transferability and other proprietary issues related to the IP right itself?
  - Which law governs the elements of infringement?
  - Which law determines the conditions for liability?
THE LAW OF THE PROTECTING COUNTRY (1)
Practical illustration

- French book illegally republished in France: protection in France under French law
- Copies later sold in England: protection under UK laws
- Action in Netherlands against a Dutch infringer of UK copyrights: UK law has to be applied
THE LAW OF THE PROTECTING COUNTRY (1)
Registered IP Rights

• International law: Paris Convention Art. 4bis(1):

Patents applied for in the various countries of the Union by nationals of countries of the Union shall be independent of patents obtained for the same invention in other countries, whether members of the Union or not.

• National laws:

*lex loci protectionis* = law of the country of registration
THE LAW OF THE COUNTRY OF ORIGIN
(*lex originis*)

- Art. 5(2) of the Berne Convention: enjoyment and exercise of copyrights enjoyment “shall be independent of the existence of protection in the country of origin of the work”

- The law of the country where the work was first published should be applied

- In the U.S., authorship is determined based on the law of the country where the work was first published

- Country of origin is mainly relevant in disputes concerning initial ownership of copyright works
NATIONAL TREATMENT PRINCIPLE

• Art 5(1) of the Berne Convention entrenches the principle of **national treatment**:

  *Authors shall enjoy, in respect of works for which they are protected under this Convention, in countries of the Union other than the country of origin, the rights which their respective laws do now or may hereafter grant to their nationals, as well as the rights specially granted by this Convention.*

• Also in the Paris Convention and the TRIPS Agreement

• National treatment is not a choice-of-law rule, but rather a general obligation to treat foreign right-holders in the same way as national authors (e.g., Victor Hugo)

• National treatment is of relevance for determining court’s jurisdiction
BACK TO THE HYPOTHETICAL CASE!

• Alex, a Russian citizen, during his exchange programme in Japan, without authorisation modified a film ‘James Bond: Dr. No’ (1962) and added some funny elements.

• Alex made 100 copies of it and sold 50 of them to Japanese friends and the rest of them (50) in China during his summer holidays in 2012.

• US company Eon Productions, a film producer, sues Alex for copyright infringement in a Russian court.

Which law should be applied?
RE-EVALUATION OF TERRITORIAL APPROACHES
TERRITORIALITY PRINCIPLE: Criticism

• Old-fashioned, outdated…

• TP lost its normative force: states are no longer in the best position to regulate IP matters - private ordering should be given preference

• Territorial approaches are not appropriate to deal with modern IP exploitation: global business models & activities of online actors

• Territorial approach facilitates the creation of “information heavens” (race to the bottom)
TERRITORIALITY PRINCIPLE: Supporting Arguments

• Territoriality principle provides for a stable foundation and legal certainty in cross-border IP litigation

• Territoriality approach to cross-border exploitation of IP helps to maintain the economic incentives and social policies which are entrenched in domestic IP statutes
TERRITORIALITY PRINCIPLE: Re-assessment

• Territoriality together with other main principles (national treatment and independence of national IPRs) forms the basis of international IP law

• Hence, it is impossible to simply eradicate territoriality principle

• Instead, a balance must be drawn between these fundamental principles and changing social reality

• Legislative proposals could be seen as an attempt to re-consider and adjust the principle territoriality
INITIAL OWNERSHIP TO REGISTERED IP RIGHTS:
EMPLOYEE INVENTIONS & CHOICE OF LAW ISSUES
In a contract, employee and employer can agree who will become the owner of the IP right.

The “only” question is remuneration.

Ownership
Can the parties agree who will own the IP assets?

US law: only economic rights (no moral rights)
‘work-for-hire’: the employer gets the rights

Which law applies if the parties do not clearly agree on the governing law?

- Law of the protecting country?
- Law of the country of origin?
- Law governing the contract?

Which law applies to the claim for the compensation of the employee?
European Patent Convention Art. 60(1):

The right to a European patent shall belong to the inventor or his successor in title.
If the inventor is an employee, the right to a European patent shall be determined in accordance with the law of the State in which the employee is mainly employed; if the State in which the employee is mainly employed cannot be determined, the law to be applied shall be that of the State in which the employer has the place of business to which the employee is attached.
IP CREATED IN THE COURSE OF EMPLOYMENT (4)
Hitachi case

Yonezawa

HITACHI
Inspire the Next
IP CREATED IN THE COURSE OF EMPLOYMENT (5)
Hitachi case
IP CREATED IN THE COURSE OF EMPLOYMENT (6)
Hitachi case

• Japanese patent Act Art. 35(1):

Right to obtain patent belongs to the inventor (employee); but the right to obtain patent can be transferred to the employer who can become exclusive licensee

• Art 35(3) Right to receive reasonable compensation:

“Where the employee … vests the right to obtain a patent or the patent right for an employee invention in the employer, or grants an exclusive license therefor to the employer, the said employee shall have the right to receive reasonable compensation.”
IP CREATED IN THE COURSE OF EMPLOYMENT (7)
Hitachi case

(1) How does Art. 35 of Japanese Patent Act become applicable?

- By choosing a choice of law rule (at that time - Horei)
- Direct application of Art. 35 (as a mandatory rule of Japanese law)

(2) What is the scope of Article 35?

- Compensation for only for the exploitation of the invention in Japan
- Compensation should be based on the global exploitation
IP CREATED IN THE COURSE OF EMPLOYMENT (8)
Hitachi case

• SC: applied PIL rules (*Horei*):
  the court decided that the parties we bound by an employment contract
  Since both parties were Japanese, Japanese law applicable

• The SC referred to the Paris Convention and held that patents are independent
  Even though the Japanese law is applicable, this does not mean that the right to obtain patents would cover patents all over the world.

  → although Japanese patent law is applicable, the independence of patents means that the law of each country determines who is the proprietor of the patent granted in that country

• Then again, interestingly, the SC held that in order to determine the amount of compensation, the same logic as is applied to a Japanese patent should be applied *mutatis mutandis* to patents outside of Japan.
• Logically speaking, the SC was not straightforward, however, the solution was very appropriate from the viewpoint of the plaintiff.

• Academics criticized this decision mainly questioning the logic of the SC

• Lower courts followed *mutatis mutandis* argument