Intellectual Property in the Global Arena

Edited by
JÜRGEN BASEDOW,
TOSHIYUKI KONO
and AXEL METZGER

Max-Planck-Institut für ausländisches und internationales Privatrecht

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Herausgegeben vom

Max-Planck-Institut für ausländisches
und internationales Privatrecht

Direktoren:

Jürgen Basedow, Holger Fleischer und Reinhard Zimmermann

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Jurisdiction, Applicable Law, and the Recognition of Judgments in Europe, Japan and the US

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Mohr Siebeck

Jürgen Basedow, born 1949; Director, Max-Planck Institute for Comparative and International Private Law and Professor of Law, University of Hamburg; Titular Member and Secretary General, International Academy of Comparative Law.

Toshiyuki Kono, born 1958; 1981 LL.B.; 1983 LL.M. (Kyoto); Distinguished Professor of Law at Kyushu University.

Axel Metzger, born 1971; Studies in law in Hamburg and Paris; 2001 Dr. iur.; 2006 LL.M. (Harvard); 2008 Habilitation; Professor of Civil Law, Intellectual Property, Information Technology and Private International Law at the Leibniz Universität Hannover, Germany.

e-ISBN PDF 978-3-16-151296-4
ISBN 978-3-16-150444-0
ISSN 0543-0194 (Materialien zum ausländischen und internationalen Privatrecht)

Die Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliographie; detailed bibliographic data are available on the Internet at *http://dnb.d-nb.de*.

The book was printed by Gulde-Druck in Tübingen on non-aging paper and bound by Großbuchbinderei Spinner in Ottersweier.

Printed in Germany.

Preface

The private international law of intellectual property is currently much debated worldwide. Art. 8 of the European "Rome II" Regulation of 2007, which codifies a territorial approach for the infringement of intellectual property, has provoked an intensive discussion in Europe whether the *lex loci protectionis* is still appropriate for intellectual property litigation in the age of worldwide networks. A condensed outcome of this debate is summarized in the "Principles for Conflict of Laws in Intellectual Property" (CLIP Principles) drafted by the European Max Planck Group on Conflict of Laws in Intellectual Property (CLIP). The First Preliminary Draft of the CLIP Principles has been published on April 8, 2009, the Second Preliminary Draft on June 6, 2009. The CLIP Principles are scheduled to be finalized in 2011.

In the United States, the American Law Institute's "Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes" of 2007 (ALI Principles) are the focal point of the debate. Both the CLIP and the ALI Principles are designed for the interpretation and gap-filling of international and domestic law and as models for national and international legislators.

The Japanese Transparency Proposal, a product of the Transparency Project which provides information on Japanese law related to international business in English, has been finalized in 2009. Inspired by the ALI and the CLIP Principles, the Japanese Transparency Proposal aims to facilitate legal development of Japanese domestic private international law. Namely, the Transparency Proposal echoes to the 2006 Japanese private international law statute which did not establish any specific conflicts rules for intellectual property matters. Further, the Transparency Proposal aims to guide the ongoing modernization of domestic international jurisdiction legislation by highlighting intellectual property-related problems and putting forward possible solutions.

The volume provides a comparative analysis of the ALI Principles, the CLIP Principles and the Transparency Proposal. It compiles papers presented at an international conference held in Tokyo on May 8 and 9, 2009. The Annex of the volume collects the black letter version of the ALI Principles of 2007, the Second Preliminary Draft of the CLIP Principles,

which has been taken into account although published shortly after the conference, and the Transparency Proposal. The "Principles on Private International Law on Intellectual Property (Japanese Proposal)" prepared by the WASEDA University Global-COE Project[1] have only been published after the submission of the papers and could therefore not be taken systematically into consideration.

The editors would like to thank the American Law Institute, especially Ms. Nina Amster and the reporters of the project, Prof. François Dessemontet, Prof. Rochelle Dreyfus and Prof. Jane Ginsburg, for the permission of reprint. Likewise, we are grateful to the members of the CLIP group for their permission to publish the Second Preliminary Draft of the CLIP Principles. The editors would also like to thank Ms. Ingeborg Stahl for the editing of the book, Dr. Jan Asmus Bischoff, LL.M. (NYU) for the preparation of the register, Mr. Paul Jurčys, LL.M. (Kyushu) and Mr. Simon Vande Walle, LL.M. (Kyushu and Georgetown) for summarizing the discussions and useful comments, and our publisher Mohr Siebeck for the production of the book. The organization of the conference and the contributions of the Japanese authors became possible due to the support by KAKENHI (Grant in-Aid for Scientific Research on Priority Areas) of the Ministry of Education, Culture, Sports, Science and Technology, Japan.

Hamburg, Fukuoka and Hannover, May 2010

Jürgen Basedow *Toshiyuki Kono* *Axel Metzger*

[1] *Kigyô to hôsôzô* [Quarterly Review of Corporation Law and Society] Vol.15 (2009), p. 250, English translation available at <www.globalcoe-waseda-law-commerce.org/activity/pdf/19/21.pdf>.

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Contributors

Jürgen Basedow, Dr. iur. (Hamburg), Dr. iur. habil. (Hamburg), Dr. h.c. (Stockholm), LL.M. (Harvard), Director, Max Planck Institute for Comparative and International Private Law, Hamburg, Germany and Professor of Law, University of Hamburg, Germany

François Dessemontet, Docteur en droit (Lausanne), Professor Emeritus at the University of Lausanne, Switzerland

Shigeki Chaen, LL.B. (Osaka), LL.M. (Osaka), Professor at Osaka University, Japan

Christian Heinze, Dr. iur. (Hamburg), LL.M. (Cambridge), Senior Research Fellow, Max Planck Institute for Comparative and International Private Law, Hamburg, Germany

Paulius Jurčys, LL.M. (Kyushu and Vilnius), LL.D. Candidate at Kyushu University, Japan

Ryu Kojima, LL.B. (Tokyo), LL.M. (Harvard), Associate Professor at Kyushu University, Japan

Toshiyuki Kono, LL.B. (Kyoto), LL.M. (Kyoto), Distinguished Professor of Kyushu University, Japan

Axel Metzger, Dr. iur. (Munich and Paris), Dr. iur. habil. (Hamburg), LL.M. (Harvard), Professor at the Leibniz University of Hannover, Germany

Pedro A. de Miguel Asensio, Dr. iur. (Madrid), LL.M. (Amsterdam), Professor at the Complutense University of Madrid, Spain

Mari Nagata, LL.B. (Osaka), LL.M. (Osaka), Ph.D. (Osaka), Associate Professor at Osaka University, Japan

Yuko Nishitani, LL.B. (Kyoto), LL.M. (Kyoto), Dr. iur. (Heidelberg), Visiting Professor at Hosei University, Japan

Ryo Shimanami, LL.B. (Tokyo), LL.M. (Tokyo), Professor at Kobe University, Japan

Miho Shin, LL.B. (Kyoto), LL.M. (Kyoto), Ph.D. (Kyoto), Adjunct Professor at Aoyama Gakuin University and Hakuoh University, Japan

Nozomi Tada, LL.B. (Osaka), LL.M. (Osaka), Ph.D. (Osaka), Professor at Kumamoto University, Japan

Simon Vande Walle, Lic. Jur. (Leuven), LL.M. (Kyushu and Georgetown), LL.D. Candidate at Kyushu University, Japan

Dai Yokomizo, LL.B. (Tokyo), LL.M. (Tokyo), Professor at Nagoya University, Japan

Part 1: Foundations

Foundations of Private International Law in Intellectual Property

JÜRGEN BASEDOW

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I. Introduction

Intellectual property and the conflict of laws have developed as two separate bodies of law. Their mutual relation has been the object of occasional – though increasingly frequent – academic contributions,[1] but not very

[1] See *Alois Troller*, Das internationale Privat- und Zivilprozessrecht im gewerblichen Rechtsschutz und Urheberrecht, 1952; *Eugen Ulmer*, Die Immaterialgüterrechte im internationalen Privatrecht, 1975; *Ulrich Drobnig, Bernd von Hoffmann, Dieter Martiny and Paul Heinrich Neuhaus*, Die Immaterialgüterrechte im künftigen internationalen Privat-

often of statutory regulation. Only in recent times have conflict legislators given an eye to intellectual property: the Austrian Act on Private International Law of 1978 contains special provisions on rights in intangibles,[2] and so do *inter alia* the Swiss Act of 1987,[3] the Italian Act of 1995,[4] the Korean Act of 2001,[5] and the Belgian Act of 2004.[6] In 2007, the European

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recht der Europäischen Gemeinschaften, RabelsZ 40 (1976) 189–230; *Haimo Schack*, Zur Anknüpfung des Urheberrechts im IPR, 1979; Jacques Raynard, Droit d'auteur et conflits de lois, 1990; *Kamen Troller*, Industrial and Intellectual Property, in: International Encylopedia of Comparative Law vol. 3 ch. 22 (1994); *Jane Ginsburg,* The Private International Law of Copyright in an Era of Technological Change, Recueil des cours 273 (1998) 239 seq.; *James Fawcett, Paul Torremans*, Intellectual Property and the Conflict of Laws, 1998; *Marta Pertegás Sender*, Cross-Border Enforcement of Patent Rights, 2002; *François Dessemontet,* International Private Law of Intellectual Property, YB PIL 6 (2004) 70–84; *Jürgen Basedow/Josef Drexl/Annette Kur/Axel Metzger* (eds.), Intellectual Property in the Conflict of Laws, 2005; *Dário Moura Vicente*, A tutela internacional da propriedade intelectual, 2008.

[2] See sect. 34 of the Federal Law of 15 June 1978 (Austrian Bundesgesetzblatt 304) on Private International Law (IPR-Gesetz): "(1) Das Entstehen, der Inhalt und das Erlöschen von Immaterialgüterrechten sind nach dem Recht des Staates zu beurteilen, in dem eine Benützungs- oder Verletzungshandlung gesetzt wird. (2) Für Immaterialgüterrechte, die mit der Tätigkeit eines Arbeitnehmers im Rahmen seines Arbeitsverhältnisses zusammenhängen, ist für das Verhältnis zwischen dem Arbeitgeber und dem Arbeitnehmer die für das Arbeitsverhältnis geltende Verweisungsnorm (§ 44) maßgebend".

[3] See Art. 110 of the Federal Law on Private International Law of 18 December 1987, Bundesblatt 1988 I, 5, English translation in Am.J.Comp.L. 37 (1989) 193: "(1) Intellectual property rights shall be governed by the law of the State in which protection of the intellectual property is sought. (2) In the case of claims arising out of infringement of intellectual property rights, the parties may agree, after the act causing damage has occurred, that the law of the forum shall be applicable. (3) Contracts concerning intellectual property rights shall be governed by the provisions of this Code concerning the law applicable to contracts (Art. 122)." For rights in intangibles flowing from employment relations, Art. 122 (3) refers to the law applicable to the employment contract.

[4] See Art. 54 of the Law of 31 May 1995, no. 218 – Reform of the Italian System of Private International Law (Gazzetta Ufficiale Supplemento Ordinario al no. 128 of 3 June 1995, p. 5–18): "I diritti su beni immateriali sono regolati dalla legge dello Stato di utilizzazione".

[5] See § 24 of the Act no. 6465 of 7 April 2001, German translation in RabelsZ 70 (2006) 342, 346; English translation in YB PIL 5 (2003) 315, 321: "The protection of intellectual property rights shall be subject to the law where the right was infringed".

[6] See Arts. 93 seq. of the Law of 16 July 2004 holding the Code of Private International Law, Moniteur Belge of 27 July 2004, English translation in RabelsZ 70 (2006) 358, 384. – Art. 93: "(1) Intellectual property rights are governed by the law of the State for the territory of which the protection of the intellectual property is sought. (2) Nevertheless, the determination of the original owner of the industrial property right is governed by the law of the state with which the intellectual activity has the closest connections. If the activity takes place within a framework of contractual relations, that State is presumed to be the State of which the law applies to these contractual relations, until proof to the contrary is brought." – Art. 94 § 1: "The law applicable by virtue of this

Union dealt with the infringement of intellectual property rights (IP rights) in Article 8 of its Rome II Regulation on the law applicable to non-contractual obligations.[7]

Rule-making activities have also occurred outside state legislatures: in 2007, the American Law Institute adopted principles in this field (ALI Principles),[8] and in Europe, a group of scholars from several countries is still discussing a similar set of principles on conflict of laws in intellectual property (CLIP Principles).[9] The ongoing work of two Japanese groups gives evidence of the worldwide interest in, and the momentum of, the subject.[10]

The following remarks are meant to shed some light on the basic considerations underlying the development of conflict rules in the field of IP rights. They will focus on choice-of-law issues, leaving jurisdiction and the recognition of judgments to other contributions.

II. Intellectual Property: An Oscillating Concept

The notion of intellectual property rights commonly used at present suggests two things: first, the existence of an overall concept that is, second,

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section determines notably: 1. Whether an asset is movable or immovable; 2. the existence, nature, content and scope of the rights in rem that can affect an asset, as well as of intellectual property rights; 3. the holders of such rights; 4. the possibility to dispose of such rights; 5. the manner of constitution, modification, transfer and extinction of those rights; 6. the effects of the rights in property vis-à-vis third parties. § 2. …".

[7] See Art. 8 of Regulation (EC) No 864/2007 of the European Parliament and of the Council of 11 July 2007 on the law applicable to non-contractual obligations (Rome II), OJ 2007 L 199/40: "(1) The law applicable to a non-contractual obligation arising from an infringement of an intellectual property right shall be the law of the country for which protection is claimed. (2) In the case of a non-contractual obligation arising from an infringement of a unitary Community intellectual property right, the law applicable shall, for any question that is not governed by the relevant Community instrument, be the law of the country in which the act of infringement was committed. (3) The law applicable under this Article may not be derogated from by an agreement pursuant to Article 14".

[8] *The American Law Institute*, Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes, 2007 (see Annex I *infra*) (hereinafter cited as ALI Principles).

[9] See the reproduction of the Secondary Preliminary Draft of the CLIP Principles in this book in Annex II *infra*.

[10] After this paper had been finalised the Japanese Transparency Group adopted its Proposal which is reproduced below in Annex III to this book. Even more recently, the Waseda Research Group published its Principles on Private International Law on Intellectual Property – Waseda University Global-COE Project 2008.12.15, see the English translation in Global Center of Excellence, Waseda University for Corporation Law and Society, The Quarterly Review of Corporation Law and Society 2009, 250–257.

close or similar to that of property in tangibles. Both assumptions are wrong, or at least misleading. While there is a general belief that the product of the human mind – i.e., an individual's ideas – deserves protection, this is not more than the philosophical basis for intellectual property rights. There is not a single jurisdiction that defines intellectual property as a general concept.

Instead, the law grants protection only to specific results spawned by human creativity, such as technical innovations, works of music or literature, or certain designs.[11] Accordingly, the Stockholm Convention establishing WIPO defines intellectual property by an enumerative list that "includes rights relating to literary, artistic, and scientific works; performances of performing artists, phonograms and broadcasts; inventions in all fields of human endeavour; scientific discoveries; industrial designs; trademarks, service marks, and commercial names and designations; protection against unfair competition; and all other rights resulting from intellectual activity in the industrial, scientific, literary and artistic fields."[12]

Nor is the comparison of intellectual property with property in tangibles appropriate. Both differ in a basic quality: While the use and consumption of corporeal goods is characterized by rivalry and exclusion, it is not in regard to intangibles. The latter can be used by an unlimited number of persons at the same time; this may reduce their commercial value, but it will in no way affect their substance and qualities. Thus, intellectual property receives its exclusive character by the sole operation of law, while the use and consumption of tangible property is exclusive by its very nature. As a consequence, property rights in tangibles must be protected to avoid conflicts and even social unrest, whereas the protection of intellectual property rights is rather a matter of maximizing social welfare.

These differences in nature explain why authors in some countries have preferred other concepts like the "law of intangibles" (*Immaterialgüter-*

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[11] Cf. *Alexander Peukert*, Geistiges Eigentum (allgemein), in: Jürgen Basedow/Klaus Hopt/Reinhard Zimmermann (eds.), Handwörterbuch des Europäischen Privatrechts, vol. I, II, 2009, p. 648 seq.

[12] See Art. 2 (viii) of the Convention Establishing the World Intellectual Property Organization, done at Stockholm on 14 July 1967, 828 UNTS 3; a similar enumerative definition of intellectual property is laid down in Art. 1 para. 2 of the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) which is Annex 1C of the Agreement Establishing the World Trade Organization, signed at Marrakesh on 15 April 1994, 1867 UNTS 154, OJ 1994 L 336/214: "For the purposes of this Agreement, the term 'intellectual property' refers to all categories of intellectual property that are the subject of Sections 1 through 7 of Part II".

recht) to that of intellectual property.[13] Dubious as it may appear at the level of substantive law, however, the latter concept is more suited for the needs of private international law.

The peculiar technique employed by this discipline is to bundle up a large number of legal issues relating to one and the same area of the law, in one category, e.g., non-contractual liability, marriage, unfair competition, succession, securities in movables – or intellectual property. As a consequence, the single issues arising in the legal analysis of a conflict will then have to be classified, i.e., attributed to one of the more comprehensive categories (or *statuta*). This characteristic method of private international law allows the conception of categories or *statuta* that encompass rather heterogeneous legal institutions, such as, e.g., companies that are basically subject to the same conflict rule irrespective of whether they are partnerships, private limited companies, or large corporations whose shares are traded at the stock exchange. The same approach is appropriate in regard to intellectual property, although the various rights differ considerably regarding their coming into existence, extent, protection, and extinction. The unitary or holistic approach does not exclude, and even necessitates, a more differentiated analysis when it comes to the single conflict rules that may relate to the specific types of intellectual property rights.

III. Territoriality

The differences between property in tangibles and in intangibles are reflected by differences in legal history. While we do not know of any legal system in ancient times that did not in one way or the other deal with the attribution of property rights in corporeal objects, intellectual property rights have been acknowledged only fairly recently. Initially they were granted by seigneurs and princes on an individual basis for the promotion of their own wealth; they would accord the exclusive right to print a book or to produce items based on a given technology in order to participate in the profit made, by the extraction of royalties. For similar utility considerations it could also occur that such rights were withdrawn at a later stage. Under the philosophical influence of the Enlightenment, the claim for more stability and for independence from individual concessions was made. But the first statutes ensuring legal security in this respect were only

[13] See *Peukert* (*supra* note 11); *Louis Pahlow*, Geistiges Eigentum, in: Albrecht Cordes/Heiner Lück/Dieter Werkmüller (eds.), Handwörterbuch zur deutschen Rechtsgeschichte, vol. I, 2nd ed. 2008, col. 2010 seq.

enacted after the French Revolution.[14] They replaced the prince's discretion in according the right by a list of statutory prerequisites for the recognition of such rights; their administration was left to special authorities under the control of the court system.

The evolution from the system of seigneurial privileges to the statutory system in the course of the nineteenth century did not lead to a thorough reconsideration of the nature of intellectual property rights. Apart from moral rights in copyrighted works, they were still considered as flowing from the powers of the respective sovereign who had simply ceded and bound the exercise of its discretion by the enactment of statutes on patents, copyright, etc. At the end of this process, intellectual property rights are still artifacts of positive law or, as the European Court of Justice once put it in regard to companies, "creatures of national law. They exist only by virtue of the varying national legislation which determines their … functioning."[15] In this view, the private law remedies provided in the case of infringements are nothing more than annexes to the public law relation between the right holder and the respective state.

As a consequence, intellectual property rights have always been considered as being confined to the territory ruled by the respective sovereign. In the words of the ALI Principles: "It has simply been assumed that each State's rules apply to anything transpiring within its borders, and no further."[16] Since legislation on IP rights, just like the previous system of privileges, pursued mercantilistic objectives, national governments were preoccupied by two concerns: the risk that foreign states might grant protection to inventions and copyrighted works only at a very low level or not at all, and the risk that they would discriminate against foreign inventors and authors.

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[14] See *Helmut Coing*, Europäisches Privatrecht 1800–1914, vol. II, 1989, p. 152 seq. referring to French decrees of 1791 and 1793 as the first legislative acts espousing the principle of intellectual property; for industrial property, see *Ulrich Loewenheim,* Gewerblicher Rechtsschutz, in: Adalbert Erler, Ekkehard Kaufmann, eds., Handwörterbuch zur Deutschen Rechtsgeschichte, vol. I, 1971, col. 1652, 1653; for copyright statutes enacted in the numerous German states throughout the 19th century, see *Vogel,* in: Schricker (ed.), Urheberrecht.Kommentar, 3rd ed. 2006, Einleitung, nos. 67 seq. Sometimes, the English Statute of Anne, 8 Ann. ch. 21, also referred to as the Copyright Act, 1710, is considered to be the first copyright act; see *William Cornish/David Llewelyn*, Intellectual Property: Patents, Copyright, Trademark and Allied Rights, 5th ed. 2003, nos. 1-14 and 9-02 seq. But protection under that act was still dependent on a registration of the right by the guild of stationers, *Eugen Ulmer*, Urheber- und Verlagsrecht, 3rd ed. 1980, p. 55.

[15] ECJ 27 September 1988, case 81/87 (*ex parte Daily Mail plc*), [1988] E.C.R. 5483 para. 19.

[16] See ALI Principles (*supra* note 8), p. 193.

It is due to these apprehensions that international conventions on these matters were agreed at an early stage in the development of uniform law: In fact, the Paris Convention for the Protection of Industrial Property of 1883[17] and the Berne Convention for the Protection of Literary and Artistic Works of 1886[18] were the first uniform law conventions agreed on the eastern side of the Atlantic. Both conventions implicitly acknowledge that each contracting state has its own legislation on intellectual property rights. On this basis, they endorse two principles: (1) the adoption of certain minimum standards of substantive law to be implemented by each contracting state; and (2) national treatment for foreign inventors and creators, i.e., the prohibition of any discrimination of foreign originators.

The rules setting forth these principles are not drafted very clearly. From a present-day reading, in particular Article 5(2) of the Berne Convention may be interpreted as containing a choice-of-law rule, too. After stating that the enjoyment of the creator's rights "shall be independent of the existence of protection in the country of origin of the work," this provision prescribes that "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."

In light of the historical public law background of IP rights outlined above, it is not very likely that this provision was meant to designate the law applicable to the protection of copyright by contract or tort.[19] But there is little doubt that the commitment to national treatment contained in that provision limits the discretion of the national legislature when it comes to

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[17] Paris Convention for the Protection of Industrial Property, done on 20 March 1883, 828 UNTS 305.

[18] The Berne Convention for the Protection of Literary and Artistic Works, done on 9 September 1886, 1161 UNTS 3.

[19] For the debate on the interpretation of Art. 5 para. 2 of the Berne Convention as a choice-of-law rule, see *Bernd von Hoffmann* in Staudinger, Kommentar zum Bürgerlichen Gesetzbuch mit Einführungsgesetz und Nebengesetzen. Einführungsgesetz zum Bürgerlichen Gesetzbuch/IPR Art. 38–42, Neubearbeitung 2001, Art. 40 EGBGB no. 375. See also *S.J. Schaafsma*, Rome II: intellectuele eigendom en oneerlijke concurrentie, Weekblad voor Privaatrecht, Notariaat en Registratie (WPNR) 2008, 998,999 who advocates the interpretation of that provision as both a prohibition of discrimination and a choice-of-law rule. As a consequence, he claims Art. 5 para. 2 of the Berne Convention to prevail over Art. 8 Rome II in accordance with Art. 28 para. 1 of the Regulation; see p. 1000. For an opposite view on Art. 5 para. 2 Berne Convention, see *Nerina Boschiero*, Infringement of Intellectual Property Rights – A Commentary on Article 8 of the Rome II Regulation, YB PIL 9 (2007) 87, 97 seq.; *Haimo Schack*, Das auf (formlose) Immaterialgüterrechte anwendbare Recht nach Rom II, in: Dietmar Baetge/Jan von Hein/Michael von Hinden (eds.), Die richtige Ordnung – Festschrift für Kropholler, 2008, p. 651, 661. In light of this debate, the unequivocal reference of Art. 8 Rome II to the *lex loci protectionis* cannot be regarded as redundant.

the adoption of choice-of-law rules for infringement proceedings. National conflict rules that subject the damages claims of foreign authors to rules that differ from those governing the damages claims of domestic authors would hardly be in line with Article 5(2), since they do not ensure national treatment to foreign authors. A different result could only be inferred in regard to the parties' agreement on the choice of a foreign law, since in that case the difference in treatment between domestic and foreign authors would not follow from state action but from private agreement not addressed by the national treatment provisions of the Paris and Berne conventions. Apart from party autonomy, the territoriality principle, meaning the application of the law of the state for which protection is sought, would however indirectly follow from the commitment to national treatment under international law.

IV. Globalization and Intellectual Property

New developments relating to the production, exploitation, and infringement of intellectual property rights have brought about far-reaching changes and exposed the territorial principle to increasing doubts.

In present times, the acquisition of intellectual property rights – instead of being merely the consequence of human creativity that occurs naturally – is the direct objective of strategically planned business activities. Research and development are key factors for the productivity of enterprises; the IP rights often are their major assets. The respective activities form the object of strategic planning, e.g., of cooperation agreements, mergers, and outsourcing. The division of labor at the national and/or international level has become a common occurrence in the field of research, too.

The resulting difficulties for the IP system may be illustrated by the following example. Where the laboratories of a major drug maker have developed a new pharmaceutical agent, long series of experiments will be needed before new drugs containing that agent can be put on the market. Often, the drug maker will not carry out these experiments in-house but will commission another – domestic or foreign – company to do that. When checking the reactions and compatibility of the patented agent with other substances, new compounds may be discovered that are also eligible for patents. As to the owner of such patents, the national laws of the companies involved may provide different answers.

Similar divergences may arise in the context of international cooperation arrangements concerning the development of software, the production of movies, or the creation of advertising strategies. In all these cooperative endeavors, the international division of labor is favored by the progressive

opening of national markets for services as laid out in the General Agreement on Trade and Services (GATS)[20] and by the revolution in communication technology. If applied to such international cooperation relations, the territorial principle might lead to the recognition of different persons as originators and right holders in different countries with regard to one and the same object of intellectual property.

The fundamental changes in communication technology, in particular the digitalization and satellite transmission of information, also affect the exploitation and the infringement of IP rights. Thus, software licenses, music, or trademarks are spread worldwide within seconds; users resident anywhere in the world may gain unauthorized access to copyrighted materials or may upload data that infringe trademarks protected in many countries. Multi-state distribution of intellectual property and multi-state infringements are corollaries of the worldwide web. It goes without saying that the territorial principle makes the protection of intellectual property rights increasingly difficult where infringements, due to the communication techniques used, are inherently ubiquitous.

V. Intellectual Property and Neighboring Categories of Law

As pointed out above (*supra* II.), the mechanism of private international law includes the classification of legal issues as being part of a category of law – in this case, of IP law. Classification may raise problems where neighboring categories of law governed by different choice-of-law rules suggest themselves as alternatives to intellectual property.

As far as the rights covered by the concept of intellectual property are concerned, recital 26 of the Rome II Regulation points out that "for instance, copyright, related rights, the *sui generis* right for the protection of data bases and industrial property rights" are meant and subject to the principle of the *lex loci protectionis*.[21] The list is not conclusive; in accordance with the ALI Principles, moral rights might be added.[22]

It is doubtful, however, whether also the right of publicity, i.e., the right to one's image or voice, can be classified as an IP right. The ALI Principles consider infringements of this right as a matter of unfair competition pinpointing the economic exploitation of, instead of the intrusion into, other people's private life.[23] In Germany, invasions of the right of publicity

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[20] General Agreement on Trade in Services, done at Marrakesh on 15 April 1994, OJ 1994 L 336.

[21] See *supra* note 7.

[22] ALI Principles (*supra* note 8), § 301 Comment f., p. 203.

[23] ALI Principles (*supra* note 8), § 301 Comment e., p. 203.

have traditionally been characterized as infringements of a general right of personality subject to the general choice-of-law rule on torts.[24] A significant practical difference concerns agreements on the applicable law: While Rome II excludes the free choice of law by the parties for infringements of IP rights and generally also for unfair competition, such choice is permitted in relation to the general conflicts rule.[25]

This takes us to another overlap of categories of the law: the infringement of IP rights and unfair competition. The unauthorized use of IP rights, in particular trademarks, will often be sanctioned under both IP law and the law of unfair competition. The respective claims may therefore be classified under both headings. In cross-border cases this will not often give rise to inconveniences, since the law applicable to unfair competition is the law of the country whose market is affected; it is in this country where the respective IP rights will generally be infringed. Exceptionally, however, the general choice-of-law rule on torts will apply under Rome II where an act of unfair competition affects exclusively the interests of a specific competitor; in that case, the common origin of the companies involved may prevail over the law of the market affected, and the parties may also be allowed to choose the applicable law.[26]

Apart from the situations outlined above, the law applicable to IP rights may get into conflict with the law chosen by the parties in the field of transfer and license agreements. Like all other contracts, such agreements are primarily subject to the law chosen by the parties (see *infra* VI.), and that may be a law that differs from the *lex loci protectionis*. It is up to a fine-tuning of the relevant choice-of-law rules to find out which aspects of a contract are subject to the law chosen by the parties and which not.

VI. A Survey of Choice-of-Law Principles

In intellectual property, three choice-of-law principles claim application to different aspects of a litigation: the *lex loci protectionis*, the *lex contractus*, and the *lex fori*.

1. Lex loci protectionis

The *lex loci protectionis* is the law of the country *for which* protection is sought, not the law of the country *where* protection is sought. The two ex-

[24] *von Hoffmann* (*supra* note 19), Art. 40 EGBGB, no. 53 seq.
[25] See Articles 4, 6 para. 4, 8 para. 3 and 14 Rome II, *supra* note 7.
[26] Compare Article 6 para. 2 with Articles 4 and 14 Rome II, *supra* note 7.

pressions are sometimes confounded, but must be clearly distinguished.[27] The latter could be interpreted as referring to the country of the court where a claim for protection is pending; in this case it would simply be synonymous to the *lex fori* and would indirectly refer to the rules on jurisdiction. Where legal action is taken in the courts of the country of protection*, lex fori* and *lex loci protectionis* would be identical. But there may also be a competent court outside that country, and such court should not apply its own law, but the law of the country for which protection is sought, which would be a foreign law in that case.

Except for the Belgian Code on Private International Law, the statutory materials listed in the introduction (*supra* I.) do not contain much information on the substantive scope of the *lex loci protectionis*. Following the Belgian law,[28] both the ALI Principles[29] and the CLIP Principles[30] are more detailed in this respect. Under these instruments there is unanimity that the existence of IP rights, including the formal and substantive requirements for their constitution, are subject to the *lex loci protectionis*, which also governs their validity, their scope and possible limitations or exceptions, their duration including the extinction, their transferability and the manner and formal requirements of transfer, licenses and security interests in IP rights, co-ownership and the transferability of shares, as well as the infringement of IP rights.

At first sight, the ALI Principles appear to take a different approach, allowing the parties to agree at any time on the designation of a law that will govern their dispute.[31] However, the seemingly wide party autonomy is narrowed by a large number of exceptions that reflect the IP aspects listed above.[32] The comments and illustrations for party autonomy provided by the ALI appear to be limited to purely obligatory – i.e., *inter partes* – effects, in particular to infringement, and explicitly state that an "agreement cannot create intellectual property protection in jurisdictions where none exists."[33] While the differences between the national laws and principles are not as significant as it might appear at first sight, marked differences can be ascertained regarding the law applicable to infringe-

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[27] See *Boschiero,* above at fn. 18, YB PIL 9 (2007) 98 seq.; see also *Jürgen Basedow, Axel Metzger*, Lex loci protectionis europea, in: Alexander Trunk (ed.) Russland im Kontext der internationalen Entwicklung: Internationales Privatrecht, Kulturgüterschutz, Geistiges Eigentum, Rechtsvereinheitlichung – Festschrift für Boguslavskij, 2004, p. 153, 159 seq.

[28] See Article 94 § 1 of the Belgian Act (*supra* note 6).

[29] See ALI Principles (*supra* note 8), § 301.

[30] See various provisions of the CLIP Principles (*supra* note 9), part 3.

[31] ALI Principles (*supra* note 8), § 302.

[32] ALI Principles (*supra* note 8), § 302 (2).

[33] See ALI Principles (*supra* note 8), § 302, Comment a., Illustration, p. 213.

ments (see below 8) and to initial ownership (see below 7); in both areas the ALI Principles give room to party autonomy.

2. Lex originis

Before turning to IP contracts, it should be mentioned that non-registered IP rights, in particular copyrights, are subject in some countries not to the *lex loci protectionis,* but to the law of origin, which is sometimes defined as being the law of first publication of a copyrighted work or, before publication, the law governing the author's personal status.[34] Both connecting factors appear to promise a universal recognition of the author's copyright in accordance with the same law.[35]

However, as pointed out above, the obligation enshrined in Article 5 para. 2 of the Berne Convention to grant national treatment to foreign authors does not permit contracting states to enact state legislation that subjects their copyright to a law that differs from the one governing the copyright of domestic authors.[36] As a consequence, Portugal, where private international law refers to the *lex originis* as the law governing copyright, has to accommodate inland treatment by a reservation for "special legislation" covering also cases governed by the Berne Convention; therefore, the reference to the *lex originis* is without significance in practice.[37]

3. Lex contractus

A second set of issues related to the transfer and licensing of IP rights is subject to the *lex contractus*, i.e., general choice-of-law rules for contracts. Except for the Swiss Act,[38] this rule is not made explicit in any of the national statutes on private international law listed in the introduction (*supra* I.). But it is nevertheless recognized everywhere as a matter of clas-

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[34] See, e.g., Art. 48 para. 1 of the Portuguese Civil Code: "(1) Without prejudice to what is laid down in special legislation, the rights of authors are regulated by the law of the place of first publication and, in the absence of publication, by the author's personal law" (my translation, *J.B.*). A similar rule relating to the existence, content, and extinction of copyright can be found in Art. 60 of Law no. 105 on the regulation of legal relations of private international law of Romania of 22 September 1992, original text and German translation in *Wolfgang Riering,* ed., IPR-Gesetze in Europa, 1997, p. 132, 154 seq.

[35] See *Schack* (*supra* note 1), p. 42 seq. and 53 seq.; *id.* (*supra* note 19), p. 663 seq.; *James Fawcett/Paul Torremans*, Intellectual Property and Private International Law, 1998, p. 512.

[36] See the text *supra* at note 19.

[37] See *Moura Vicente* (*supra* note 19), p. 230, who cites other literature claiming that because of the need of inland treatment Art. 48 para. 1 of the Civil code is without practical application.

[38] See Article 110 (3) of the Act (*supra* note 3).

sification. The report *Giuliano/Lagarde* on the 1980 Rome Convention on the law applicable to contractual obligations[39] is based on the assumption that the Convention applies to contracts relating to intellectual property to the extent that contractual issues are at stake.[40] The distinction of contractual and non-contractual issues may sometimes be difficult to carry out,[41] but is inevitable. The European Commission's proposal for the Rome I Regulation contained an explicit choice-of-law rule for license agreements[42] which was criticized for its excessive simplicity[43] and therefore deleted from the final text of the Regulation.[44] But this does not mean that license agreements are excluded from the Regulation; rather, its general choice-of-law rules apply and have to be interpreted in a way that is appropriate to the type of agreement in question.

The classification of issues as contractual or non-contractual is alleviated by provisions such as Article 94 § 1 of the Belgian Act[45] which point out that the possibility to dispose of IP rights, i.e., their transferability and the manner of transfer, are subject to the *lex loci protectionis*; similar provisions are contained in the ALI Principles[46] and the CLIP Principles.[47]

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[39] Rome Convention of 19 June 1980 on the Law Applicable to Contractual Relations, consolidated version in OJ 2005 C 334.

[40] See *Mario Giuliano, Paul Lagarde*, Report on the Convention on the Law Applicable to Contractual Obligations, OJ 1980 C 282/1, 10 at para. 2 excluding *in rem* rights and rights in intangibles from the scope of the convention, while Article 4 (3) of the Rome Convention explicitly refers to contracts dealing with *in rem* rights in real property, thereby making clear that the exclusion referred to in para. 2 of the report does not relate to the contractual issues.

[41] See the examples given by *Paul Torremans*, Licences and assignments of intellectual property rights under the Rome I Regulation, Journal of Private International Law (JPIL) 2008, 397, 398–399.

[42] See Article 4 (1) (f) of the Commission Proposal for a regulation of the European Parliament and the Council on the law applicable to contractual obligations (Rome I), COM(2005) 650 of 15 December 2005; the rules of the proposal are also published in *Max Planck Institute for Comparative and International Private Law*, Comments on the European Commission's Proposal for a Regulation of the European Parliament and the Council on the law applicable to contractual obligations (Rome I), RabelsZ 71 (2007) 225, 254.

[43] See the CLIP Comments on the European Commission's Proposal for a Regulation on the Law Applicable to Contractual Obligations (Rome I) of 15 December 2005 and the European Parliament Committee on Legal Affairs' Draft Report on the Proposal of 22 August 2005, 4 January 2007, see <www.cl-ip.eu/>, last accessed on 18 March 2009; see also the *Max Planck Institute*, previous note, RabelsZ 71 (2007) 263–265; *Torremans* (*supra* note 41), JPIL 2008, 403 seq.

[44] See Article 4 of Regulation (EC) no 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations (Rome I), OJ 2008 L 177/6.

[45] See *supra* note 6.

[46] ALI Principles (*supra* note 8), § 302 (2) (b) and (c).

They enunciate the general principle that all properties of an IP right which may become relevant for contracts but which attach to the right as such are non-contractual in nature. By contrast, all obligations arising between the parties to an IP-related contract to make use of the right in a certain way or to abstain from certain ways of using it, are contractual in nature and subject to the *lex contractus*.

In the first place, the characterization as contractual opens the gate for party autonomy. The parties may choose the applicable law[48] subject to internationally mandatory provisions, like for example § 32 b of the German Copyright Law, which safeguards the author's right to a reasonable remuneration even for contracts subject to a foreign law if certain minimum contacts with Germany can be established.[49] The effects of choice-of-law agreements may further be confined by consumer protection legislation of the consumer's country of residence under conflict rules such as Article 6 of the Rome I Regulation;[50] as an example, the widespread provisions against unfair terms in consumer contracts may be cited.

Where the applicable law has not been chosen by the parties, the owner of the IP right will generally be considered as the person effecting the characteristic performance of a transfer or license agreement; consequently, the law of the country where the owner or licensor is habitually resident would apply under Article 4 para. 2 Rome I Regulation.[51] But the obligations incumbent on the transferee or licensee may be of an equal or even greater weight.

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[47] CLIP Principles (*supra* note 9), § 3:301.

[48] See Article 3 of the Rome I Regulation (*supra* note 44); ALI Principles (*supra* note 8), § 315; CLIP Principles (*supra* note 9), § 3:501.

[49] § 32 of the German Copyright Act of 1965 as amended by a law of 10 September 2003, Bundesgesetzblatt I, p. 1774, provides: "(1) For the grant of exploitation rights and the permission of the use of the work, the author is entitled to claim the remuneration agreed. Where the amount of the remuneration has not been decided a reasonable remuneration is deemed to have been agreed. To the extent that the remuneration agreed is not reasonable the author is entitled to the other party's approval of an amendment of the contract that grants a reasonable remuneration to the author. (2)….(3) The other party may not invoke a contract term which deviates from paras. 1 and 2 to the author's detriment. The provisions mentioned in the 1st sentence also apply where they are circumvented by other arrangements….(4)… ." And § 32 b provides: "§§ 32 and 32 a are of mandatory application, 1. where the exploitation contract would be subject to German law in the absence of a choice of law or 2. where significant acts of exploitation to be committed within the geographical scope of this law are the object of the contract" (my translation, *J.B.*).

[50] See *supra* note 44.

[51] See *supra* note 44; see also ALI Principles (*supra* note 8), § 315 (2).

Suppose that the license forms part of a franchise contract that would be subject to the law of the franchisee under Article 4 para. 1 e) Rome I.[52] The granting of the license on the one hand and the franchisee's distribution duties appear to outweigh each other to the effect that no characteristic performance can be ascertained and the law of the closest connection would be applicable under Article 4 para. 4 Rome I. But even where the licensor's performance can be considered to be characteristic, the licensee may have undertaken other commitments, e.g., the printing of a certain number of copies or the issue of a soft cover edition, etc., that may create a closer connection with a country different from that of the licensor.

In order to cope with these and other complex contractual arrangements, the European CLIP group proposes to balance, in determining the applicable law, a number of factors that may have greater or lesser significance from case to case.[53] This balancing test may lead to the determination of a performance different from that of the licensor as being characteristic, to the negation of a characteristic performance (Article 4 para. 4 Rome I), or to the operation of the escape clause (Article 4 para. 3 Rome I).[54] As a consequence, the CLIP Principles have abandoned the concept of characteristic performance and instead instruct the court to look for the closest connection of the contract with any one state. Contrary to some critics,[55] Article 4 Rome I appears to be sufficiently flexible to allow for appropriate solutions and to accommodate the balancing test proposed by the CLIP group.

4. Lex fori

A third choice-of-law principle that has to be taken into account in IP law, as in other areas, is the *lex fori* for procedural issues. This principle is generally acknowledged; however, the classification of single issues as being substantive or procedural in nature varies.[56] While the ALI Principles have

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[52] See *supra* note 44.

[53] See the CLIP Comments (*supra* note 43); CLIP Principles (*supra* note 9), § 3:502; *Torremans* (*supra* note 41), JPIL 2008, 403 seq.; see also *Pedro de Miguel Asensio*, Applicable Law in the Absence of Choice to Contracts Relating to Intellectual or Industrial Property Rights, YB PIL 10 (2008) 199, 207 seq.

[54] Cf. *Dieter Martiny*, in Münchener Kommentar zum Bürgerlichen Gesetzbuch, vol. 10, 3rd ed. 1998, Art. 28 EGBGB nos. 262 seq.

[55] See the criticism by *Nerina Boschiero*, Spunti critici sulla nuova disciplina comunitaria della legge applicabile ai contratti relative alla proprietà intellettuale in mancanza di scelta ad opera delle parti, in: Gabriella Venturini/Stefania Bariatti (eds.), Nuovi strumenti del diritto internazionale privato – Liber Fausto Pocar, 2009, p. 141, 152 seq.

[56] This is particularly noteworthy between common law and civil law jurisdictions; see *Martin Illmer*, Neutrality Matters – Some Thoughts about the Rome Regulations and

not tackled this problem, the European CLIP Principles closely follow the Rome I and Rome II Regulations.

Unlike the common law, both EU instruments classify prescription as substantive, not as procedural.[57] Likewise and contrary to common law perceptions, the assessment of damages is governed, under the Rome Regulations, by the *lex contractus* or *lex delicti*, and not by the *lex fori*.[58] By the same token, the burden of proof cannot be considered as being procedural;[59] instead, the pertinent provisions contain substantive rules on the outcome in the case of uncertainty about the relevant facts. The applicable law would therefore be the *lex loci protectionis*, in particular in cases of infringement, or the *lex contractus* where facts relevant for contractual issues have to be ascertained.

VII. Initial Ownership

1. Positive Law

As pointed out before, the division of labor in the production of IP rights makes it sometimes difficult to determine the initial owner of such a right. The Rome II Regulation has been criticized for not having tackled this problem.[60] But this issue is simply outside the scope of an instrument on non-contractual liability; in the terms of the general part of private international law, it is a preliminary question to the issue of infringement.[61] The existence and ownership of IP rights are a matter for the general – national and international – choice-of-law rules on intellectual property which have not been harmonized by EC law so far and actually contain some pertinent provisions.

Where the inventor is an employee, the European Patent Convention of 1973 deals with this problem and refers to the law of the country in which the employee is mainly employed. When that country cannot be determined, the law of the country where the employer has his place of business

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the so-called Dichotomy of Substance and Procedure in European Private International Law, Civil Justice Quarterly (C.J.Q.) 28 (2009), 237, 241 seq.

[57] See Article 12 (1) (d) Rome I (*supra* note 44), and Article 15 (h) Rome II (*supra* note 7); CLIP Principles (*supra* note 9), § 3:506 (1) (d) in regard to contractual claims; a corresponding provision on non-contractual claims is § 3:604(4).

[58] See Art. 12 (1) (c) Rome I (*supra* note 44), making however a reservation for limits imposed by the law of procedure, and Art. 15 (c) Rome II (*supra* note 7); cf. *Illmer*, above at fn. 53, C.J.Q. 28 (2009) 242.

[59] See Article 18 (1) Rome I (*supra* note 44), and Article 22 (1) Rome II (*supra* note 7); the CLIP Principles contain a corresponding general rule in Article 3:806.

[60] See *Boschiero* (*supra* note 19), YB PIL 9 (2007) 102.

[61] See *Schack* (*supra* note 19), p. 652 – 653.

to which the employee is attached shall apply.[62] In general, therefore, the *lex loci protectionis* is excluded in these cases to the extent that the right to a patent before registration is at issue; it regains its unfettered significance after registration. Some of the conflict statutes listed in the introduction (*supra* I.) contain similar rules. They allow for choice-of-law agreements either directly or indirectly by the contractual determination of the main working place.

The Belgian Act of 2004 extends this rule to other cases where *industrial* (*sic*!) property results from contractual relations, and establishes a rebuttable presumption that the *lex contractus*, as the law of the closest connection, governs initial ownership.[63] Analogous rules can be found in the ALI Principles for registered rights,[64] for non-registered trademarks,[65] and – in a rather complex rule – also for other rights that do not arise out of registration, in particular copyrights.[66]

2. Inconvenience of the lex loci protectionis

An assessment of these rules must take into account that the universal and unambiguous identification of the initial owner of an IP right is of the utmost significance for the operation of the whole system. In fact, the application of the *lex loci protectionis* to issues such as transferability and formal validity of transfer is hinged upon a clear and uniform identification of the initial owner. Where national rules differ in regard to the initial acquisition of IP rights resulting from cooperative research or production, the economic surplus flowing from the exploitation of such rights will by necessity be suboptimal because owner A in country X and owner B in country Y will get into permanent conflicts, not only in their respective countries of origin, but also on third markets where either A or B will prevail, depending on who is considered as being the initial owner by the national IP law.

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[62] See Article 60 (1) of the Convention on the Grant of European Patents of 5 October 1973, 1065 UNTS 199: "(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 the 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 his place of business to which the employee is attached. (2)….".

[63] See Article 93 (2) of the Belgian Act (*supra* note 6); for a commentary, see *Marta Pertegás*, in: *J. Erauw* et al., eds., Het Wetboek Internationaal Privaatrecht Becommentarieerd – Le Code de droit international privé commenté, 2006, p. 477.

[64] ALI Principles (*supra* note 8), § 311.

[65] ALI Principles (*supra* note 8), § 312.

[66] ALI Principles (*supra* note 8), § 313.