

# 22 International Jurisdiction about Intellectual Property Right with Special Reference to "Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes" by the American Law Institute

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*The recent number of actions filed in Japan against international infringement of intellectual property rights is increasing. Under such circumstances, questions arise as to how to determine the applicable law and intellectual jurisdiction in respect of foreign intellectual property rights. In Japan, this issue has been vigorously discussed since the Card Reader System case, and in particular, various academic views have been presented regarding jurisdiction along with progress in the discussion for preparing the draft convention at the Hague Conference on Private International Law. This study report focuses on the draft provisions drawn up by the American Law Institute (ALI). Compared with the draft provisions prepared at the Hague Conference and those drawn up by the Max Planck Institute (MPI) as a revision of the Hague Conference Drafts, the ALI Draft is very unique as it aims to achieve consolidation of proceedings. From a long-term perspective, intellectual property laws will be further unified on a substantive and substantial level, and the necessity of such consolidation of proceedings will increase accordingly. This report discusses noteworthy issues in this respect.*

## I Introduction

The recent number of actions filed in Japan against international infringement of intellectual property rights is increasing. Under such circumstances, questions naturally arise as to how to determine the applicable law and intellectual jurisdiction in respect of foreign intellectual property rights. In Japan, this issue has been vigorously discussed since the Card Reader System case, and in particular, various academic views have been presented regarding jurisdiction along with progress in the discussion for preparing the draft convention at the Hague Conference on Private International Law.

The American Law Institute (ALI) currently works on and discusses "Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes" (hereinafter referred to as the "ALI Draft"). The ALI Draft was initially prepared as a draft convention, but currently, it is being developed as "principles" that are expected to be applied voluntarily by courts and parties to disputes. The contents of the ALI Draft will not be adopted as provisions of the Convention without modification, but at the present stage when private international law or law of international civil procedure applicable to international intellectual property right disputes have yet to mature, there is no choice but to make reference to dominant academic views in order to establish rules available to domestic courts. For this reason, at the present moment, it is important to some extent to examine such draft provisions

suggested by experts overseas.

In particular, the scope of issues addressed in the draft convention discussed at the Hague Conference have obviously been narrowing in the past few years, and in light of such situation, the rising trend toward intensification and elaboration in the academic discussion is likely to hit a ceiling in the next few years.

Based on this recognition, this study report on international jurisdiction discusses the ALI Draft, which is widely accepted among experts and contains unique provisions. The ALI Draft addresses a wide range of issues including the issue of applicable law, and it has already been studied by some Japanese experts. This report particularly focuses on cases where invalidation of industrial property rights arising out of registration is claimed in infringement actions, which were most controversial at the Hague Conference, and on cases where proceedings involving an industrial property right are initiated in the court of the state of registration while infringement actions regarding the right brought in more than one state are consolidated and pending in the court of another state. Please note that, because of limited space, the structure of this summary is different from that of the main text.

## II ALI Draft and Its Background

One of the points prioritized in the ALI Draft is efficiency in dispute resolution. It is indeed often the case that a patent right arising from an invention made by a single natural or legal person

is registered in different states as different patent rights. From the perspective of ensuring efficiency, it would be desirable for proceedings involving all patent rights to be handled in one forum state.

The ALI also argues that if proceedings involving patent rights are handled in a single forum, it would be possible to clarify the difference in patent laws and patent practices among states, and such opportunity would not be provided unless proceedings are consolidated in a single forum.

The ALI Draft is more unique and interesting than other draft provisions and other academic view because it (i) allows a broader jurisdiction, (ii) suggests consolidation of proceedings in a single forum for the purpose of promoting efficiency, and (iii) focuses on the capability of the court where proceedings should be consolidated.

For comparison with such unique provisions of the ALI Draft, this report also reviews the progress in FY2004 in the discussion at the Hague Conference and in major academic views at the Max Planck Institute (MPI).

## **1 Hague Conference on Private International Law**

The Hague Conference on Private International Law started working on the "Preliminary Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters" (hereinafter referred to as the "Hague Conference Draft") in 1996, and adopted a draft convention tentatively at the Fifth Special Commission in October 1999. Article 12 of the 1999 Draft provided for exclusive jurisdiction, stipulating in Paragraph 4 that the judgment on the registration, validity, and invalidity of industrial property rights shall be subject to the exclusive jurisdiction of the state of registration. However, opinions were divided as to infringement, and three types of provisions were indicated in the draft: (1) the judgment on the infringement and validity of right shall be subject to exclusive jurisdiction; (2) the judgment on the validity of right shall be subject to exclusive jurisdiction, and a defense of invalidity of right shall not be examined in infringement actions; and (3) the judgment on the validity of right shall be subject to exclusive jurisdiction, but a defense of non-existence of right, if any, may be examined in infringement actions.

The issue of jurisdiction in respect of the infringement and validity of intellectual property rights also brought about an intense debate at the Diplomatic Conference held in 2001. New draft provisions were proposed at this diplomatic conference: (1) the ruling in the matters arising

as incidental question shall have no binding effect in subsequent proceedings even to the same parties concerned; and (2) 'court' shall include a Patent Office or similar agency.

However, the negotiation process faced challenges due to an extremely broad range of matters addressed in the Convention. Consequently, since 2002, the negotiation has been preferentially focused on the core area where consensus is expected to be reached among the Members.

As of 2004, the "Preliminary Draft Convention on Exclusive Choice of Court Agreements" (hereinafter referred to as the "2004 Draft") is being prepared as the first draft convention on jurisdiction by agreement. Article 2(2)(k) of the 2004 Draft includes the following provision. Article 2 lists exemptions from the scope of application, which can be interpreted as meaning that the Convention may apply to infringement actions regarding intellectual property rights other than copyrights.

On the other hand, a defense of invalidity of right is provided in Article 10, which is partially parenthesized due to the lack of common consensus.

Under Paragraph 1, on which consensus has been reached, the ruling on the validity of an industrial property right disputed as an incidental question shall not be recognized or enforced under the Convention, which follows the trend in the past discussions at the Hague Conference.

Paragraph 2 is laid down with the aim of stressing that the issue of validity of an intellectual property right shall be subject to exclusive jurisdiction of the courts of the state under the law of which the intellectual property right arose. According to this provision, the court of a state may refuse to recognize or enforce its judgment on the validity of right on the ground that the judgment is inconsistent with the ruling made by the court of another state under the law of which the right arose. In this provision, "court" is supposed to include a patent office. In consequence, where the patent office makes a decision to invalidate a registered patent right, the judgment on a patent infringement action that is made on the basis of the validity of the patent shall not be recognized or enforced.

Paragraph 3 goes a step further than Paragraph 2. In accordance with Paragraph 3, where not only a ruling has been made on the validity of an intellectual property right in the state under the law of which the right arose but also the proceedings on validity are pending in that state, the court of another state adjudicating an infringement action regarding the intellectual property right pursuant to a licensing contract may postpone recognition or enforcement of the judgment or refuse an application therefor.

However, the opportunities to file an application will not be completely lost because a refusal under this article does not prevent a subsequent application for recognition or enforcement of the judgment.

## 2 Discussion at other entities

While the discussion at the Hague Conference focuses on exclusive choice of court agreements, the MPI has worked on a revision of the original Hague Conference Draft. The MPI Draft will be included in *Intellectual Property in the Conflict of Laws*, which is to be published in early 2005.

The provisions on the validity in the MPI Draft are almost the same as those in the Hague Conference Draft of 2001. The judgment on the validity of industrial property rights arising out of registration shall be subject to the exclusive jurisdiction of the state of registration, whereas the judgment on a defense of invalidity of right disputed in infringement actions as incidental matters shall not be subject to the exclusive jurisdiction of the state of registration. An additional provision is given in parentheses that the judgment on such incidental matters shall not be binding on any actions brought later.

This study report particularly discusses cases where proceedings involving an industrial property right are initiated in the court of the state of registration while infringement actions regarding the right are consolidated and pending in the court of another state. As mentioned later, the ALI sets very interesting provisions aimed to promote consolidation of proceedings, while focusing on the capability of the court.

In this respect, the report also reviews the provisions of the TRIPS Agreement of patent offices and courts and points out the necessity to provide for a scheme to check the capability of the court where proceedings are consolidated.

Concurrent jurisdiction occurs between the court in one state and the patent office in another state and between the court of one state and the court of another state. This report presents the discussion on *lis pendens* in international civil procedure, which has become relatively developed within the framework of domestic law.

In Japan, discussion on *lis pendens* in international civil procedure is complicated, and the comparative theory, which is often regarded as being closer to common law, seems to be somewhat dominant among experts and courts. However, a precedent judgment addressing this issue was rendered only by a lower court. The Supreme Court referred to *lis pendens* in the recent case (Tsuburaya Production case), but a decisive conclusion has yet to be drawn.

This report also reviews the provisions of

the "ALI/UNIDROIT Principles and Rules of Transnational Civil Procedure," with the aim of inquiring into the outcome of the comparison between common law and civil law from the project carried out by the ALI and the UNIDROIT.

The provisions on *lis pendens* in the ALI Draft are more detailed than those in the UNIDROIT Principles and Rules, and in particular, the ALI Draft includes provisions based on the theory of regulation based on the possibility of obtaining recognition, which is under the influence of common law. In this respect, how the ALI Draft will affect court practices in the United States is very interesting.

## III Actions on Validity and *Lis Pendens* in International Civil Procedure

As mentioned above, the controversial issue at the Hague Conference on Private International Law was how to provide for cases where invalidation of industrial property rights arising out of registration in foreign states is claimed in infringement actions. It is also necessary to provide for cases where actions are brought in more than one state.

This chapter reviews the issue of jurisdiction over infringement actions and actions for declaration, which is emphasized in the ALI Draft, and the issue of *lis pendens* in international civil procedure, on which discussion among Japanese experts has become relatively developed in connection with coordination of jurisdiction between courts.

### 1 Jurisdiction over infringement actions

The ALI Draft provides for the rules for jurisdiction as follows: Articles 201 to 203 provide for the state where the defendant has its habitual residence as the general forum state, jurisdiction by agreement, and the forum in the case of the defendant's response, and Articles 204 and 205 provide for the special forum for infringement actions and actions regarding contracts. As for infringement actions, the ALI Draft basically gives jurisdiction to the place where the infringement was committed, and the scope of jurisdiction given under the ALI Draft is broader than that given under the MPI Draft.

According to both the ALI Draft and the MPI Draft, the state of registration shall not have completely exclusive jurisdiction. Both drafts give jurisdiction to the state where the defendant has its habitual residence as the general forum state, to which actions against infringements occurring all over the world may be brought.

Both drafts also give jurisdiction to the state

where the defendant acted to cause the alleged infringement, under certain requirements, but the scope of the state of the defendant's act differs between the drafts. According to the ALI Draft, jurisdiction shall be given to the state where the defendant acted, including preparatory acts, as well as the state to which the alleged infringement was directed, while according to the MPI Draft, jurisdiction shall be given to the state of the defendant's act only in the case of ubiquitous infringement. Furthermore, the MPI Draft provides for a limitative requirement that jurisdiction shall be given only if (a) an essential part of the activities which are claimed to have caused the infringement has been carried out by the defendant in the Forum State, and (b) the activities which are claimed to have caused the infringement are not aimed at the market in the Contracting State where the defendant is habitually resident, and have no substantial commercial effect there.

The MPI Draft is also unique for the provision on ubiquitous infringement. The assumed case of ubiquitous infringement is that an act committed in a state has affected an infinite number of other states and therefore the range of the affected area cannot be specified. A typical case is an intellectual property right infringement via the Internet.

Neither the ALI Draft nor the MPI Draft gives exclusive jurisdiction over infringement actions to the state of registration, and therefore, it is necessary to consider how to deal with cases where the validity of a patent right is challenged as an incidental question.

## **2 Actions on validity and a defense of invalidity**

In accordance with the draft provisions prepared at the Hague Conference, actions on the validity of industrial property rights arising out of registration shall be subject to the exclusive jurisdiction of the state of registration. There was controversy over whether or not to include infringement actions in the scope of exclusive jurisdiction of the state of registration, and should they be included in the scope of exclusive jurisdiction, how to deal with the claim for invalidation of rights in infringement actions.

In this respect, the provisions of the ALI Draft are very unique. The ALI Draft deals with this issue under the provisions on actions for declaration in general. Actions on the validity of a right arising out of registration in one state shall be subject to the exclusive jurisdiction of the state of registration, whereas actions on the validity of a right registered in more than one state shall be subject to the exclusive jurisdiction of the state where the defendant has its principal

place of business, and a defense of or a counterclaim for invalidity of a patent right may be adjudicated in an infringement action.

In light of the ALI's policy of prioritizing efficiency, it may be reasonable to provide that a defense of invalidity may be adjudicated in an infringement action, whereas the ALI gives a very broad jurisdiction to the state where the defendant has its principal place, which is one of the most ambitious provisions in the ALI Draft. This provision was not seen in the draft convention published in 2002.

However, it seems somewhat disputable to give exclusive jurisdiction to the courts of the state where the defendant has its principal place of business in respect of patent rights that exist all over the world. It is understandable that the ALI laid down the draft with strong interest in actions brought against infringements via the Internet, but the courts of the state where the defendant's principal place of business is located do not always have sufficient experience or capability to handle proceedings involving foreign intellectual property rights.

As mentioned above, the note attached to Article 33 of the TRIPS Agreement allows Members to use examination results given by another state without modification. This provision relates to the administrative authorities, but it implies the fact that the patent examination capability differs among states. The provisions of the Convention should be prepared while taking into consideration the difference among courts in the actual capability to adjudicate cases involving foreign intellectual property rights. As for the ALI Draft, more detailed discussion may be necessary for the provisions of Article 225(4)(d) and Article 226(2)(g), which will be mentioned later.

## **3 Concurrent action in international civil procedure**

The ALI Draft contains detailed provisions on the issue of *lis pendens* in Chapter 2 titled "Simplification of Multiterritorial Actions." The MPI Draft receives a higher evaluation because it provides for jurisdiction more restrictively. However, the MPI Draft still needs to include a specific provision on *lis pendens* in international civil procedure, because even in accordance with the jurisdiction provision of the MPI Draft, exclusive jurisdiction cannot be exercised where the infringement action and judgment thereof are only effective between the parties concerned. Therefore, the ALI Draft deserves credit for including detailed provisions on *lis pendens*.

The ALI Draft is based on the premise that proceedings for international actions regarding intellectual property rights should be

consolidated in judicial bodies in a single forum. Consequently, Article 224 provides for *lis pendens* in international civil procedure, whereas Article 225 also regulates cases where there is a connection between actions brought by the same plaintiff against different defendants. If there are exceptional circumstances as set forth in Article 226, the court to which jurisdiction is to be given in accordance with Article 224 or 225 shall decline jurisdiction.

Academic views in Japan regarding *lis pendens* in international civil procedure are divided, including the theory of regulation based on the possibility of obtaining recognition and the comparative theory. Although a decisive conclusion has yet to be drawn, courts often apply the balance of interest theory.

The theory of regulation based on the possibility of obtaining recognition is often regarded as being closer whereas the balance of interest theory is regarded as being closer to common law. The ALI Draft adopts the theory of regulation based on the possibility of obtaining recognition under Article 224. The ALI admits this theory is not familiar to US legal professionals, but should it be adopted in US court practices, it would have a significant influence. Careful attention should be paid to the future trend.

On the other hand, the ALI repeatedly uses the concept of “transaction or series of transactions or occurrences” as a criterion for judging the scope of actions to be included in the expanded jurisdiction. Article 224 of the ALI Draft also uses this concept for judging whether or not the court second seized should suspend the proceedings. This concept under US law seems to contemplate a very broad scope of jurisdiction.

#### **IV Consolidation of Jurisdictions and Claims Made before Patent Offices**

The issue of *lis pendens* in international civil procedure is widely discussed among Japanese experts on private interminable law. The major point of this issue is how to deal with proceedings for an action brought in a domestic court as the court second seized where another action is pending in a foreign court as the court first seized. Since it is impossible to oblige a court to refer the case to another court unless provided under a convention, consolidation of actions has not been considered very positively. There is another question on how to deal with cases where the issue disputed in an intellectual property right action at the court of one state is to be examined at the patent office of another state. The ALI Draft is reviewed in respect of these issues.

#### **1 Consolidation of actions**

Article 225 is titled “Consolidation of Territorial Claims.”

While Article 224 provides for *lis pendens*, Article 225 provides for the criteria for judging whether or not there are other actions to be consolidated.

The procedures under Article 225 are divided into two phases: the court should first determine whether or not “related” actions should be consolidated, and should next consider whether it should carry out proceedings for the consolidated actions or suspend proceedings.

Whether or not actions and claims are “related” is determined in accordance with Paragraph 2. As under Articles 220 and 224 claims shall be deemed to be related if they arise out of the same transaction or “series of transactions or occurrences.”

Where the court, having considered these matters, determines that the actions should be consolidated, the court should next consider whether it should retain jurisdiction over the consolidated actions or suspend proceedings in favor of another court. When determining this, the court should consider the matters listed in Paragraph 4.

Among the matters set forth in Paragraph 4, those mentioned in (d) and (e) relate to the capability of courts. It provides that consolidation shall not be required if the court were “obliged to consider novel or complex questions of foreign law.” Consolidation is desired for the purpose of promoting efficiency, and efficiency would be reduced if the proceedings to be consolidated include those for actions to which laws of a completely different legal system are applicable.

Subparagraph (e) focuses on such capability of the court, i.e. “whether the court first seized would be required to decide factual issues requiring procedures unavailable in that jurisdiction.”

Despite these detailed provisions on consolidation, the ALI considers it difficult to actually consolidate proceedings under the current system of law both in Europe and in the United States. In Europe, under Article 27 of the Brussels Regulation 1, the jurisdiction of the court first seized shall prevail over that of the court second seized. However, it is provided under EU law that the courts of the state where the defendant has its address shall have basic jurisdiction whereas patent rights, trademark rights, design rights, and other rights arising out of registration shall be subject to the exclusive jurisdiction of the state of registration. Due to these provisions, it is impossible to consolidate proceedings in a single forum under EU law.

Under US law, on the other hand,

proceedings are highly likely to be consolidated, but the difficulty in consolidation is also recognized. One of the reasons for such difficulty is that the procedure for suspending proceedings under US law, which aims to regulate *lis pendens*, is not mandatory. It is also pointed out, as a more important reason, that consolidation of actions would conflict with due process provisions.

## 2 Claims made before foreign patent offices

As mentioned in the previous section, the ALI not only discusses whether or not to reject an action brought to the court of one state when another action is pending in the court of another state, but also attempts to consolidate intellectual property right actions that may be brought to courts in more than one state. Article 226 provides that the court where actions are to be consolidated in accordance with Article 225 should decline jurisdiction if a court of another state is more appropriate to resolve the dispute.

Article 226(1) provides as follows.

In exceptional circumstances, when the jurisdiction of the court seized is not founded on an exclusive choice of court agreement valid under § 202, or on a declaration of nonliability under § 223, the court may, on application by a party, suspend its proceedings if in that case a court of mother State has jurisdiction and is clearly more appropriate to resolve the dispute. Such application must be made no later than at the time of the first defense on the merits

Exceptional circumstances are specified in Paragraph 2. Among these circumstances, the one mentioned in (g) is noteworthy. Under the provision of this subparagraph, focusing on patent cases, the court may suspend proceedings if a court of another state has special capability to handle patent cases, even if such court is not the court first seized.

The ALI refers to the U.K. Patent Office and the U.S. Court of Appeals for the Federal Circuit (CAFC) as courts with such special capability. As mentioned above, it would bring about some merits to enable a court of one state to determine the validity of intellectual property rights arising out of all states concerned, but such scheme would not be achieved without the provision of Subparagraph (g). However, the ALI Draft is only a rule that is expected to be adopted by courts at their discretion or by the parties concerned by agreement, and it is not a convention. Therefore, it cannot impose obligations to states or require courts to refer cases to more appropriate courts. The provision of this article, under which the court may suspend the proceedings if there is a

more appropriate court to handle the case, may be the limit of such "rule".

Within this limit, it may still be too early to set a provision, such as Article 223(2)(b), which enables a court of one state to determine the validity of industrial property rights arising out of registration in all states concerned.

A question is posed in this respect. In the United States, courts play a significant role in determining the validity of patent rights, whereas in Japan, Germany, and the Republic of Korea, patent offices play this role. The question is whether or not the proceedings should also be suspended where the validity of patent rights is challenged at such patent offices.

As mentioned above, in the discussion at the Hague Conference, rulings made by patent offices are treated in the same manner as judgments rendered by courts.

On the other hand, unlike the Japanese Patent Law, the US Patent Law authorizes courts rather than the USPTO to determine the validity of patent rights. However, it has been pointed out that it is costly to bring actions for invalidation of patent rights to courts, and the utilization of the USPTO has been stressed on several occasions. Along with this trend, the US Patent Law has gone through several revisions.

Should the USPTO's role become more significant, there may be some possibility that the ALI would require courts to suspend the proceedings where trials for invalidation are demanded at foreign patent offices under Article 226.

## V Conclusion

Since the discussion at the Hague Conference on Private International Law has been focused on limited issues, there is little chance that a general convention on jurisdiction over intellectual property right actions will be established in the near future.

On the other hand, as the ALI suggests, it is desired that the proceedings should be consolidated in specific juridical bodies for the purpose of ensuring efficiency and fairness in resolution of international disputes over intellectual property rights. In order to realize consolidation of the proceedings, it is necessary to establish a system under which courts should suspend the proceedings or consider consolidating the proceedings in other judicial bodies, as the case may be. To this end, it is desirable that courts should be obliged to suspend the proceedings or refer cases to more appropriate bodies, but imposing such obligations has yet to be fully accepted even within the framework of domestic law, and it is difficult to achieve it unless provided under a convention.

Since FY2004, the ALI draft has been prepared in the form of principles rather than draft provisions. The ALI Draft is unique for its detailed provisions on consolidation of judicial proceedings, but such provisions mainly aim to leave it to the discretion of the courts to determine whether or not to consolidate or decline jurisdiction.

It would also be difficult to set the criteria for requiring courts to suspend the proceedings or refer cases to more appropriate bodies. The requirements for consolidating or declining jurisdiction may gradually be established as courts determine this issue at their discretion, but for the time being, reference will be made to dominant academic views when discussing such requirements. In this respect, it is necessary to examine academic views, and in particular, it is significant to continue following discussions on the ALI Draft and other draft conventions.

