23 Problems Surrounding Application of Laws Relating to Intellectual Property on the Internet

Research Fellow:Mari Nakayama

Along with globalization of markets, progress of advanced information and communications technologies, and expansion of communication networks such as the Internet, diversification has been seen in parties sending and receiving information as well as in the types of transmittable information, and information distribution areas have also been dramatically expanded. In line with such changes, intellectual property (IP) has become easily available across national borders, and this has brought about frequent occurrence of transnational IP infringement disputes. Since national borders on the Internet are unclear, it is difficult to specify, by applying the territoriality principle in a strict sense, the place where the infringing act has been committed, and should it be at all possible to specify it, laws of a large number of countries might be applicable. To cope with this situation, various measures are being considered to efficiently and effectively solve IP infringement occurring across national borders by uniformly applying a single law of a particular country, rather than applying laws of individual countries of protection or places of infringement. This report reviews the significance and function of the territoriality principle relating to IP as well as the significance of the principle of the law of the country of protection that has been advocated based on the interpretations of international IP conventions, thereby exploring a reasonable rule of application of laws relating to IP infringement on the Internet, focusing on patent, trademark, and copyright.

1 Territoriality principle for IP

(1) Significance of the territoriality principle for IP

When considering a rule of application of laws relating to IP, it is necessary to understand the significance and function of the territoriality principle, which has been recognized as the dominant rule on conflict of laws relating to IP so far. Today, amid the progress of globalization, which is increasing the needs for effective measures against IP infringement under the TRIPS Agreement and the global awareness of the necessity of strengthening IP enforcement, the significance of the territoriality principle is being questioned again. Controversy has been aroused regarding what the basis for the territoriality principle is, whether or not the territoriality principle includes the principle of substantive law and the principle of conflict of laws, and what relation exists between the territoriality principle and conflict of laws.

The territoriality principle for patents means that "the patent right of each country is stipulated as to its establishment, transfer, and effects by the national law of that country, and the effects of the patent right are only recognized within the territory of that country."(*1) This principle on conflict of laws leads to the principle of substantive laws that an IP right is effective only within the territory of the country where it is granted. Major conventional views find the basis of the territoriality principle in the principle of national treatment under Article 2 of the Paris Convention and Article 5(2) of the Berne Convention, the principle of independence of patents under Article 4(2) of the Paris Convention, and the principle of independence of trademarks under Article 6(3) of the Paris Convention. The Paris Convention and the Berne Convention were successfully established as uniform substantive conventions at the end of the 19th century prior to other fields of private international law, and they currently serve as a foundation for international IP protection. It may be of great importance to find a rule on conflict of laws in such global-scale IP conventions. However, on viewing the historical developments of international IP conventions, it is revealed that the territoriality principle has gradually been overcome. There is a view that, in light of the difference among countries in terms of substantive laws, legal policies, and international technical standards, we should still adhere to the territoriality principle. Those who advocate the direct application of the territoriality principle and those who find the basis in sovereignty under public law seem have based such on this view. However, IP is intangible property for which an

(*1) Judgment of the Third Petty Bench of the Supreme Court of July 1, 1997 (Minshu, Vol. 51, No. 6, 2299; BBS case); Judgment of the First Petty Bench of the Supreme Court of September 26, 2002 (Minshu, Vol. 56, No. 7, 1551; FM demodulator case).

exclusive right is artificially granted. It is unevenly distributed by nature, and its location can be specified by function. In addition, there is no necessity to uniformly apply the territoriality principle to all issues relating to IP including contracts, torts, and inheritance, but application of laws should be considered depending on issues. Some people argue that an IP infringement dispute should be divided into two phases, the phase relating to the effect and contents of the right and the phase relating to the determination of infringement, and the territoriality principle should be applicable to the former phase whereas the law applicable to the latter phase should be determined more flexibly. In this respect, there is a view that the phase of the determination of infringement should also be divided into individual legal matters such as who should be liable and what remedies are available, and different connection points should be specified. Another possible method of determining the applicable law is to accept a correctional connection or selective connection or to give exceptional consideration to interests under substantive private laws so as to contribute to the philosophy of protecting IP in certain cases. Conflict of interests between countries due to the difference in policies can be coordinated by public policy in the case where the country's legal polices and interests are impaired, or by a special theory of connection for applying mandatory provisions in the case where a third party country's interests are impaired. Consequently, IP infringement on the Internet can be solved by applying various rules of application of laws, while giving consideration to coordination of interests between the parties concerned, difference in legal systems and conflict of policies and interests between countries. From this perspective, I consider that the territoriality principle should not be applied to all cases as an obligatory rule, but rather the law applicable to IP infringement on the Internet should be determined flexibly by applying various rules on conflict of laws.

(2) Interpretations of the territoriality principle in international IP conventions

This section examines the Paris Convention and the Berne Convention, which have conventionally been recognized as the dominant grounds for advocating the territoriality principle.

The Paris Convention provides for international protection of industrial property. This convention is supported by three major concepts, the principle of national treatment, right of priority, and principle of independence, which relate to the status of foreign nationals, the establishment of IP right, and the life of the right respectively. Before the Convention was established, foreign nationals had been discriminately treated under bilateral treaties or the reciprocity principle. Therefore, upon the establishment of the Convention, the principle of national treatment that foreign nationals should be treated equally to nationals was regarded as being most significant. An intentionally dominant view advocates that the principle of national treatment is the basis for the territoriality principle. However, the principle of national treatment is basically an issue of laws relating to the status of foreign nationals, and it belongs to a different category from that of rules on conflict of laws, which relates to the scope of application of substantive laws of individual countries. In Japan, there are various views regarding the application of foreign national laws, including a view that argues that conflict of laws depends on the provisions of a foreign national law because conflict of laws never occurs if the enjoyment of private right is not provided under the foreign national law. However, a foreign national law is never applicable unless the application of the foreign national law is determined under a rule on conflict of laws, and therefore the issue of conflict of laws should come first. As foreign national laws are substantive laws on foreign affairs and they are different from substantive laws on national affairs, a rule on conflict of foreign national laws should also be different from a rule of conflict of substantive laws on national affairs. In other words, a rule on conflict of foreign national laws is different from an ordinary bilateral rule, because it is a unilateral rule that a national law should be applicable to the forum within the national territory. This leads to an interpretation that the principle of national treatment under the Convention contains a special rule on conflict of laws. Based on this interpretation, a leap of logic can be found in the view that regards the principle of national treatment as the basis for a bilateral rule on conflict of laws that the establishment, transfer, and effect of an IP right should be governed by the law of the country where the right is issued or registered. In consequence, such a view that considers the principle of national treatment to necessarily contain the territoriality principle, a bilateral rule on conflict of laws, cannot be accepted.

Professor Ulmer drew the principle of the law of the country of protection from the principle of national treatment, and his interpretation is historically of great significance. However, from the history of the establishment of the Convention, the principle of the law of the country of protection cannot be construed as a rule on conflict of laws. Furthermore, even if a bilateral rule on conflict of laws could be drawn, governing all IP issues uniformly under the law of the country of protection is not sufficiently supported, and it is necessary to consider conflict

of laws depending on the types of IP and types of issues. A recent dominant view argues that the law of the country of origin should be applicable to the determination of the copyright owner. Another view advocates uniform application of the law of country of employment or the law governing the contract to the determination of the remuneration for employee's invention. It is also argued that the law chosen ex post by the parties concerned should be applicable to infringement. Conflict of laws should be flexibly considered on a case-by-case basis.

2 Application of laws relating to IP on the Internet

In Japan, there are various views on the application of laws relating to IP infringement, including a view to apply the law of the country of protection, a view to apply the law of the place of tort (Article 11 of the Rules Concerning the Application of Laws), a view to regard, as in the judgment of the FM demodulator case, the claim for injunction or destruction of the infringing article as the issue of the effect of IP and the claim for damages as the issue of tort and apply the law of the country of protection to the former and the law of the place of tort to the latter, and a view to apply the law of the place of real rights by regarding IP as real rights. Those who advocate the law of the place of tort can also be divided, in terms of how to deal with a remote tort that brings about an effect (damage) in a different jurisdiction from the jurisdiction where the infringing act was committed, into those who advocate the law of the place of act, those who advocate the law of the place of effect, and those who advocate the application of two laws, the law of the place of act to the liability arising from negligence and the law of the place of effect to the liability without fault. Such rules on conflict of laws relating to IP infringement in the real world may also be applicable to IP infringement on the Internet, by flexibly interpreting the meaning of the "country of protection," "place of act," and "place of effect." There is also a view that proposes special new rules suitable for the Internet, on the grounds that, due to the characteristics of the Internet, the conventional rules cannot sufficiently solve IP infringement on the Internet. According to this view, the law of the place of act shall be applicable in principle, and protection shall not be available if protection available under the law of the place of act is not equivalent to that available under the law of the place of effect in terms of function. This view thus aims to coordinate the law of the place of act with the law of the country where information is received. For instance, in the case where A is protected under the law of Country X, if protection of A' under the law of Country Y can be evaluated to be equivalent to protection of A under the law of Country X in terms of function, A' may be protected under the law of Country X, whereas, if protection of C under the law of Country Z is not equivalent to protection of A under the law of Country X, C may not be protected under the law of Country X.

Today, the application of the law of the country of protection is too rigid and cannot be accepted, and therefore the law of the place of tort should be applied. The application of the law of the place of effect also cannot be accepted, because it means the application of laws of all countries in the world that are accessible from the Internet, which is unpredictable to the person who transmits information and requires complicated and cumbersome procedures. In light of the necessity to protect free circulation of information on the Internet and clarify the code of conduct of users as well as for the purpose of promoting Internet transactions, application of the law of the place of act would be appropriate. However, the "place of act" on the Internet is specified constructively. The place of act may be the address of the infringer, the place of business of the infringer, the place from which information is transmitted or the location of the server. Where the location of the server is deemed as the place of act, the connection would be found in the countries where protection is inadequate such as copyright havens. In this case, it should be allowed to find another correctional connection in the place of business of the infringer. Coordination with legal systems of individual countries should also be achieved through denial of protection if, under the law of the place of effect, the allegedly infringed object is not included in the scope of protection or the allegedly infringing act is not included in the category of infringement under the law of the place of effect.

Along with the recent trend of determining the law applicable to a tort in a more flexible manner, it is also necessary to consider to what extent the application of the law chosen ex post by the parties concerned and the law of the common place of habitual residence can be allowed for IP infringement cases. Article 110(2) of the Switzerland's Federal Code on Private International Law provides that in the case of claims arising out of infringement of intellectual property rights, the parties may always agree, after the act causing damage has occurred, that the law of the forum shall be applicable. This approach is also adopted by the Max Planck Institute (MPI).

3 Rules Proposed throughout the World

IP issues on the Internet have been

discussed at WIPO on various occasions, focusing on international rules for dealing with IP issues under private international law. Recently, in the Hague Conference on Private International Law (HCCH), work has been under way in the project of the "draft Convention on Jurisdiction and Recognition and Enforcement of Foreign Judgments in Civil and Commercial Matters." Since IP issues were first included in the scope of the draft in 1991 and discussion started on jurisdiction and recognition and enforcement of foreign judgments relating to IP, the unification of international rules relating to IP under private international law has been studied on a full-fledged scale. In the initial stage, the major objective was to establish a rule for jurisdiction and recognition and enforcement of foreign judgments relating to IP. However, if inconsistent judgments are handed down by different courts, it would cause forum shopping for more favorable judgments and also harm international harmonization in judgments. Consequently, with the aim of clarifying rules for determining the applicable law, the American Law Institute (ALI) and the MPI have recently developed detailed drafts of such rules, while including infringement on the Internet in the scope of regulation.

(1) Second Preliminary Draft of the Principles Concerning Jurisdiction, Choice of Law and Judgments in Transnational Disputes

Following the publication of the draft Convention on Jurisdiction and Recognition and Enforcement of Foreign Judgments in Civil and Commercial Matters of the HCCH in 1999, the American Law Institute (ALI) has continued with the project, at the request of the US government, for studying legislative measures with the expectation that the HCCH draft convention will be successfully established. Professor J. C. Ginsburg, Professor Dreyfuss, and Professor Francois Dessemontet who studied IP issues under private international law at the request of WIPO, have been carrying out the project as joint reporters, and many experts from the United States, Europe, and Japan have also participated in the project as observers. The preliminary draft was published in January 2004. This draft is still under discussion and may be subject to revision in the future, but it will help to understand the current view of the United States.

First, the ALI draft clearly lays down general rules. With respect to rights that arise out of registration such as patents, designs, trademarks, plant varieties, semiconductor integrated circuits, and geographical indications, the law applicable to determine the existence, validity and scope of those rights and remedies for their infringement is the law of each country of registration. On the other hand, with respect to other intellectual property rights that need not be registered, such as copyrights, neighboring rights, and trademarks under common law (geographical indications), trade names, and publicities, the law applicable shall be the law of any country where the alleged infringing act has or will significantly impact the market for the work or subject matter at issue. With respect to moral rights, the law applicable to determine the existence, validity and scope of the rights and remedies for their violation is the law of the country where the damage occurred.

Where it is clear from all the circumstances of the case that it is more closely connected to the law of another country, the rule of territoriality does not apply in whole or in part, and a single law shall be applicable to the case as a whole. The law to apply in such case shall be the law of the country with the closest connection to the infringement, which is evidenced by (i) the center of gravity of the alleged infringer's business undertaking, as measures and objective factors, and (ii) the extent of the activities and the investment of the right holder. Some laws may be excluded depending on the degree to which the desirability of such regulation is generally accepted as evidenced by the TRIPS and successive international laws. If theses norms do not supply a rule or if the rule cannot be ascertained, the law of the forum applies as the final choice.

The applicable law is also determined in terms of individual points of issue, such as the initial right holder, transferability, and licensing.

(2) Rules drafted by the Max Planck Institute for Intellectual Property

The Max Planck Institute for Intellectual Property (MPI), Germany, has also drafted rules of application of laws. In Europe, the Proposal for a Regulation of the European Parliament and the Council on the law applicable to non-contractual obligations was published. This proposal regards the law of the country of protection as the law applicable to IP infringement, which has aroused controversy on various aspects. It adopts flexible rules for determining the law applicable to a tort, allowing the application of the law chosen ex post by the parties concerned, the law of the common place of habitual residence, or the law of any country with the closest connection with the tort. Some people argue that such rules should also be adopted for IP. The MPI draft is affected by this argument. It is also affected by the Second Preliminary Draft of the ALI Principles.

According to the MPI draft, the law applicable to determine the existence, validity and scope of property rights shall be, in principle, the law of the country of protection. In this respect, the country of protection refers to the country or countries

where the legal claim relating to the existence or validity of the intellectual property right should take effect. On the other hand, the law applicable to determine infringement shall be the law of the country or countries where the infringement occurred as alleged by the legal claim, if the claimed legal remedies should take effect within or in connection with such country or countries. When infringement is alleged in a foreign dispute, the infringement shall be deemed to have occurred in the country where the infringement substantially affects the domestic market. As for moral rights (including moral rights of author), infringement shall be deemed to have occurred in the country or countries where the infringement affects the rights.

When damage is caused in multiple countries specified in the suit, the law of each of these specified countries where protection is claimed shall be applicable. Party autonomy is allowed for determining the remedies for the infringement, though the provision is in parentheses. The MPI draft also includes a presumptive rule for the case where the law of such country where protection is claimed, cannot be determined. Namely, if a judgment is based on a presumption and the remedies ordered in the judgment are completely different from the corresponding remedies stipulated in the country where protection is claimed, the judgment cannot be enforced.

Furthermore, the MPI draft distinguishes between infringement occurring in specific multiple countries and ubiquitous infringement, i.e. infringement occurring in an unspecified number of countries. When ubiquitous infringement is alleged, the court shall apply the law of the country with the closest connection to the infringement as a whole. In this respect, the MPI adopts the two factors for judging the closest connection, i.e. the center of gravity of the alleged infringer's business undertaking as measured as objective factors, and the extent of the activities and the investment of the right holder. In the case where different countries are determined as the countries with the closest connection to the infringement, there are two options. (A) The country where the defendant has its address shall be presumed to have the closest connection, unless the plaintiff successfully proves that another country has a closer connection; if the court cannot determine the country with the closest connection to the infringement, available remedies shall be limited to those allowable in proportion to the damage caused by the infringing act in the country or countries where the infringing act is prohibited by law. (B) If available remedies differ in terms of perspectives, they shall be limited by only allowing injunction against the infringing act that is directed to the country or countries where such act is prohibited, so as not to extend remedies to the country or countries where such act is allowed, or by limiting the amount of damages payable to the plaintiff.

(3) Study of proposed rules

The Second Preliminary Draft of the ALI Principles combines a rule and an approach into a method for determining the applicable law. This characteristic method, which is also seen in the Second Restatement of Conflict of Laws, is to adopt a clear general rule, while adopting, in exceptional cases where it is clear that the case is more closely connected to the law of another country, an approach of determining the applicable law based on various factors as provided in Article 6(2) of the Second Restatement of Conflict of Laws. This is also adopted in the MPI draft as a method for determining the law applicable to ubiquitous infringement. The adoption of such a flexible method seems to be due to the difficulty in laying down a clear uniform rule for determining the law applicable to IP infringement on the Internet. This method enables flexible determination on a case-by-case basis by judging the closest connection to the case with various factors, but it is questionable as it would cause legal instability. In the case of torts committed in multiple locations on the Internet, the center of gravity of the infringer's business undertaking and the right holder's activities and investment might point in different directions. The ALI draft adopts the law of the forum in cases where the applicable law cannot be determined by this approach. This procedure is based on the prevalence of national law and cannot be accepted under the philosophy of private international law.

The ALI draft distinguishes between rights that need be registered and those that need not be registered. However, where a company operates a business on the Internet, it uses various IP rights in the course of business, such as indicating its trademark on its website, using the software for which it has obtained a patent, and uploading the contents for which it owns copyright. It seems more desirable to adopt a uniform rule for all types of IP rights, as proposed by the MPI.

With respect to infringement of rights that need not be registered, such as copyrights, the MPI draft adopts a rule of applying the law of any country where the alleged infringing act has or will significantly impact the market for the work or subject matter at issue. It is noteworthy that the MPI interprets the territoriality principle in a very relaxed manner. The MPI seems to adopt the effect principle, which is adopted in US case laws for applying regulations under the Anti-Trust Act. However, such a rule focusing on the effect

is a unilateral rule on conflict of laws for determining the scope of application of the law of the forum, and it should inevitably be criticized as insufficient as it gives no consideration to the benefit of applying the law of any country where the effect occurred. Furthermore, the impact on the market is an uncertain factor, and it would be necessary to further examine in what case such an impact would occur and clearly specify the level of the infringement or alleged infringer's activities that may be recognized as causing the impact on the market. This approach is similar to the application of the law of the place of effect, but it cannot satisfactorily play a role in assuring free circulation of information on the Internet and predictability of business activities or providing for code of conduct in IP disputes. A rule on conflict of laws relating to IP infringement should be laid down as a rule that can effectively function to provide not only remedies for infringement but also predictability for right holders and code of conduct. The effect of an IP infringement might be deemed to have occurred in all markets accessible or substantially accessible to any person in the world. In my opinion, in order to provide predictability of business activities, coordinate interests of the parties concerned, and assure the development of business on the Internet, the law applicable to an IP infringement should be the law of the place of act.

The MPI draft, in light of the characteristics of the Internet, advocates that where ubiquitous infringement has occurred, or in other words, where infringement has occurred in an unspecified number of countries, the law of the country with the closest connection to the infringement as a whole should be uniformly applicable. The MPI provides for an optional measure to limit protection by denying remedies that are not available under the law of the country concerned. Thus, the MPI allows uniform application of a single law, aiming to solve conflict of laws. In this respect, the MPI draft is acceptable.

4 Judgments on the application of laws relating to IP Infringement on the Internet

In the patent field, infringement of business model patents and software patents may occur. In the trademark field, international application of META tags, framing specifications, and deep linking may raise problems. In the copyright field, problems may arise from distribution of digitized music works and cinematographic works (peer-to-peer file sharing via MP3, Napster, or KaZaa), new types of legitimate download services (iTunes, MusicNet, eMusic.com), secondary liability of the ISP for copyright infringement, and database protection. Infringement cases in these fields are studied below.

(1) Patent infringement on the Internet

There was a case in which the U.K. Patent Court determined the place of infringement, focusing on the system as a whole including the server located outside the United Kingdom. The allegedly infringed UK patent related to the computer-based interactive system for authorized gambling. According to the patent claim, the system consisted of a host computer, terminal computers, communication means for these computers, and a program to operate the terminal computers. A third party placed a host computer in the Netherlands Antilles to operate the system and provided the program for customers in the United Kingdom. The defendant argued that his system was not included in the scope of the claims because he placed the host computer outside the territory of the United Kingdom. The court pointed out as follows. A host computer is indispensable for the claimed invention but where it is located does not matter, so a conventional concept of "place" should not be applied in this case. What matters is who uses the claimed system and where they use it. In this case, UK customers, intended users of the claimed system, access the host computer placed by the defendant in the Antilles, by using their own terminal computers in the United Kingdom. The court, focusing on the system as a whole, judged the defendant's act to be infringing the patent under the UK law.

As for business model patents, it is important to determine where the system is implemented. In the case of transnational use, if the media or hardware that records the software to operate the system in a country is used only for the purpose of operating the system in that country, such use can be deemed to be infringing the patent under the national law of that country, even though part of the system is used abroad. In the U.S. case, the law of the place of the server for the centralized management of the system or the central master server was determined to be applicable to a tort relating to the system as a whole.

(2) Trademark infringement on the Internet

The case of trademark infringement on the Internet handled by the Federal Court of Canada related to the mark, *Yellowpage*, which was in the public domain in the United States but was effectively registered in Canada, and the court acknowledged infringement under the Canadian Trademark Law. In the United States, the mark *Yellowpage* is in the public domain, but, in Canada, it was not in the public domain; in fact, a particular person obtained a trademark right for it and established a substantial reputation. The

defendant was a US company that had merged with a Canadian company called Canadian Business Online. The defendant operated a business under the name of the Canadian Yellowpages On The Internet. The plaintiff claimed a provisional injunction to stop the defendant from using the mark *Yellowpages* on the Internet. As the defendant did not follow the order issued by the Federal Court of Canada, the plaintiff required the defendant to appear in court, alleging that the defendant's behavior was insulting to the court and the defendant should explain the reason for non-attendance. The court held that what could not be done in Canada —— using the plaintiff's registered trademark via the company based in the United States —— could never be done in the United States. This judgment is criticized because provisional injunction against the defendant's act on the Internet would have a serious impact on the defendant. The act subject to provisional injunction may be illegal under the law of the country where information is received but it may be legal under the law of the country from which information is transmitted. In light of the borderless nature of the Internet, courts should be careful in issuing injunction, because injunction might bring about disadvantages to businesses operating on the Internet and prevent their activities that have been recognized as being legal under national laws of some countries.

This problem is also taken into consideration in the WIPO Joint Recommendation. Those who use marks on the Internet should regulate the scope of their activities by taking measures to limit the scope of their business with the use of technical means, limit users by requiring passwords for the access to their websites, conduct transactions only with specific users by confirming the users' address and nationality before allowing access to their websites and indicate and observe a disclaimer that they trade only with customers in specific markets. By doing so, they shall not be liable for infringement alleged by right holders in other countries. It is an effective measure to encourage individual businesses to clearly define the scope of activities so as to avoid liability.

(3) Copyright infringement on the Internet

The US court handled the following case. iCraveTV.com made signal waves for the Internet TV broadcasting available to several TV stations. TVRADIO.Com, a Canadian company that operated iCrave.com in Ontario, retransmitted, via the Internet, the signals of the programs and made them available to cable TV subscribers in Ontario. Film companies, TV network companies, and sports leagues, alleged copyright and trademark infringement and filed a suit at the US District Court of the Eastern District of Pennsylvania for provisional injunction to stop TVRADIO.com from webcasting the programs for which the plaintiffs owned copyrights on the Internet. TVRADIO.com argued that the activity of iCrave.com, which was alleged as infringing the copyrights and trademarks, was legal under Canadian law. Such an act of retransmitting the signals was recognized as an infringing act under the US Copyright Law whereas it was not recognized so under the Canadian Copyright Law. The court upheld the plaintiffs' claim for injunction, holding that the plaintiffs demanded remedies under the US Copyright Law for infringement of the copyrights under the US Copyright Law, setting aside the issue under the Canadian law. This judgment is also criticized because the court gave no consideration to the transnational impact of injunction. As the defendant succeeded in making its argument accepted that its retransmission was legal in Canada, the court should have had no option but to regard the defendant's act as legal. However, the court judged that it had personal jurisdiction over the defendant on the grounds that some of the defendant's subsidiaries operated businesses in the United States, and acknowledged infringement under the US Copyright Law. The injunction was issued without respect to the actual circumstances in Canada, and Canadian courts cannot pass it over. This case suggests the necessity to achieve coordination with protection and regulation under the law of the country where information is received, rather than simply applying the law of the country from which information is transmitted.

These cases indicate that the law of the place of act is generally adopted. They also suggest that where the law of a country is uniformly applied to an infringement occurring in another country where the allegedly infringed object is not protected or the allegedly infringing act is not recognized as an infringing act, it is necessary to achieve coordination with legal systems and provisions of the other country. The MPI draft adopts a rule for ubiquitous infringement to achieve coordination with legal systems and provisions of the country where injunction or punitive damages are not available. Consideration should also be given to the contents of rights and the types of infringing acts under IP laws of individual countries.

5 Application of Laws Relating to IP on the Internet

On the Internet, information is transmitted across national borders, and this raises a question under private international law, i.e. which country's law is applicable. While taking into consideration the difference among national laws

that exist throughout the world, we should consider how to solve a conflict of laws in accordance with the spirit of private international law, with the aim of establishing a desirable rule of application of laws relating to IP in the future.

If we adhered to the territoriality principle for IP infringement on the Internet and strictly apply the law of the country of protection or the law of the country where information is received as the place of tort, laws of all countries where information can be received via the Internet would become applicable. While international harmonization and unification have been proceeding in terms of the contents of IP rights, protection and enforcement of rights against infringements, there are still legal areas that are difficult to harmonize and unify internationally. Under such circumstances, adherence to the territoriality principle may still be widely accepted. However, it requires users to be well versed in legal systems and provisions of all such countries and follow very cumbersome and complicated procedures for solving disputes. Furthermore, it would impair predictability of business activities and free circulation of information on the Internet, thereby casting a dark shadow over the future development of the Internet. We should protect right holders and secure convenience and security of consumers as appropriate, while ensuring that entrepreneurs can soundly operate business on the Internet.

In my opinion, the law of the place of act should be applicable in principle as the law of the place of tort, and protection should not be given if protection is unavailable under the law of the country where information is received. Furthermore, if protection is unavailable or inadequate in the place of act, like a copyright haven, coordination between the law of the place of act and the law of the place of effect should be achieved by finding a correctional connection in the country where protection is available.

The "place of act" should not be limited to the location of the server, as criticized so far. In light of the characteristics of the Internet, it is necessary to specify the "place of act" of the infringer in terms of function. It should be specified by flexibly interpreting the place of act of the companies and individuals acting on the Internet and limiting the scope of activities based on the consumers and markets targeted by the companies or the nature of the activities of the individuals. This approach may be similar to the view to advocate the law of the country where information is received. However, while the application of the law of the country where information is received would raise the possibility that the person who transmits information would be held liable for infringement occurring in any place that the person could not predict, the approach of applying the law of the place of act assures the predictability for such a person as it gives consideration to the place or region targeted by that person. If the alleged infringer has acted in a copyright haven where protection is unavailable or inadequate, it is appropriate to find a correctional connection and apply the law of the country where the alleged infringer is located or the victim has its habitual residence or principal place of business. Meanwhile, the liability of the Internet service provider that acts as an intermediary for providing information should be determined depending on the location of the server. This rule is also adopted by the EU directive. The liability of users and the liability of the server should be determined uniformly under a single law. Furthermore, in the case where users who have no contractual relationship with the Internet server make compressed files with the data of music CDs and DVDs and upload these files onto websites via the server, their liability for tort should be determined by the law applicable to the server, as if they used the server. As for the system producer, the applicable law should be the law of the place where he has uploaded the software and made it available to users, or if it is difficult to specify such place, the law of his principal place of business, which can be regarded as the place where the system is produced. Some people argue that the law of the place where software is downloaded should apply, but such argument is unreasonable because the system producer cannot predict, at the time of producing the software, where the software will be downloaded. In the case of information transmission based on the Peer to Peer technology, which enables the users to directly exchange information with each other, it is difficult to specify the place of act because users conduct two-way communication. Nevertheless, it would be reasonable to regard the place where each user involved in the exchange of files is located as the place of act.

In the case where protection is available in the place of act whereas protection is not available or the allegedly infringing act is not regarded as infringement in the country where information is received, coordination should be achieved through denial of remedies for the infringement. Regulations regarding the liability of the ISP or server manager and the treatment of infringement arising from the exchange of MP3 files via Peer-to-Peer systems differ among countries, and some countries do not have any regulations or only have unclear regulations. Regulating file exchange involves rather sensitive issues such as sound development of Internet transactions and individual freedom of use of information. Appropriate rules of conflict of laws are required to deal with these issues.