

**THE PRIVATE INTERNATIONAL LAW OF INTELLECTUAL
PROPERTY AND OF UNFAIR COMMERCIAL PRACTICES:
CONVERGENCE OR DIVERGENCE?**

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ABSTRACT

The interaction between IP rights and unfair competition as two distinct but closely related areas -that may provide alternative or complementary ways for protecting the same subject matter- raises significant issues for Private International Law. The rationale of the choice of law rules dealing with these two areas of the law are compared in the context of the current international and european developments. Changes in technology and the expansion of multi-state activities raise the need to review, beyond the EU context, certain connecting factors that make the laws of several countries applicable to activities aimed at a plurality of markets. Such a review poses similar challenges to choice of law rules on infringements of IP rights and acts of unfair competition, for instance when considering the development of specific rules for multi-state activities or infringements affecting many countries. Moreover, in that which concerns the impact on IP and unfair competition of the requirements arising from the functioning of the internal market, coincidences are observed, but important differences can also be found, for example, those having to do with the scope of mutual recognition and the origin principle.

Keywords: Intellectual Property, Unfair Competition, Choice of Law, Territoriality, Market Effects, Country of Origin

RESUMEN

Entre las infracciones de derechos de propiedad intelectual e industrial y ciertos actos de competencia desleal se observa una significativa semejanza en lo que respecta al tratamiento de DIPr. La transformación tecnológica y la expansión de las actividades con repercusión en un gran número de Estados imponen particulares exigencias de adaptación a ciertos criterios de conexión. Tales exigencias se proyectan de modo semejante sobre la territorialidad característica de los derechos de propiedad industrial e intelectual así como en relación con el criterio de los efectos en el mercado, básico en materia de competencia desleal. Especial atención recibe la interacción entre el criterio de los efectos en el mercado establecido en el Reglamento Roma II y el reconocimiento mutuo propio del mercado interior de particular trascendencia en el ámbito de la competencia desleal y que contrasta con la evolución en el sector de la propiedad intelectual. El análisis conjunto de las soluciones en materia de propiedad intelectual y competencia desleal permite poner de relieve algunas de las carencias, asociadas a su excesiva rigidez en la regulación actual en el seno de la UE.

Palabras clave: Propiedad industrial e intelectual, competencia desleal, derecho aplicable, territorialidad, efectos en el mercado, criterio de origen

The Private International Law of Intellectual Property and of Unfair Commercial Practices: Convergence or Divergence?

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I.- Two distinct but closely related areas. II.- Jurisdiction: an Overview. 1.- Cross-border IP infringements and acts of unfair competition. 2.- Divergences resulting from restrictions to adjudicate IP disputes. III.- Background and rationale of the choice of law rules. 1.- Territoriality, *lex loci protectionis* and *lex originis*. a) - Industrial property rights. b) - Copyright and related rights. 2.- The market effects rule. a) - Tort liability vs. unfair competition. b) - Specific restrictions on advertising of certain products. IV. Unification of choice of law rules in the EU. 1.- Infringement of IP rights. 2.- Acts of unfair competition. 3.- Delimitation and Comparison. V.- Internal market and mutual recognition as sources of divergences. 1.- Protection of national IP rights, harmonization and creation of Community rights. 2.- Significance of the country of origin principle. a) Country of origin vs. affected market. b) TV and E-commerce Directives. c) Directives on unfair commercial practices and services. VI.- "Multi-state" activities as a factor of convergence. 1. Determination of the connecting factors. 2. The search for alternatives. a).- Party autonomy. b).- Application of a single law.

I. Two distinct but closely related areas

1. Intellectual Property (IP)¹ and unfair competition are closely connected fields. Across several legal systems, the same factual situations may give rise to liability that is characterised as an infringement of IP rights in some systems and as an act of unfair competition in others. The demarcation between their respective scopes of application varies between the different legal systems. At times, IP legislation and unfair competition law provide alternative or complementary ways for protecting the same subject matter². Unfair competition rules on imitations overlap to a certain extent with trademark and industrial design protection and also with copyright and related rights. Imitation with a risk of confusion to

¹ The term "intellectual property" is used as meaning, for instance, industrial property rights, copyright, related rights, and the sui generis right for the protection of databases, see Regulation 864/2007 (recital 26 of the Preamble) and the TRIPS Agreement.

² Only unfair trade practices that "implicate subject matter covered by IP rights or analogous to such subject matter" are intended to be covered by the ALI Principles, see Comment (f) to § 102 on the Scope and Applicability of the Principles. The Comment acknowledges that such an approach may lead to uncertainty as to which practices are within the scope of the Principles. Additionally § 301(2) of the Principles establishes a choice of law rule common to all unfair commercial practices based on territoriality (and market effects) that may be inappropriate with respect to certain practices that concern subject matter that may be covered by IP rights, such as litigation concerning the disclosure of secret information. The Proposed Final Draft of the Principles (March 30, 2007) is available at <http://www.ali.org/doc/2007_intellectualproperty.pdf>.

consumers has become one of the typical unfair competition acts under Directive 2005/29/EC on unfair commercial practices (Annex I), since in most Member States unfair competition law has traditionally provided certain protection against unfair imitations that is supplementary for creative products which do not qualify for exclusive IP protection³. The three-year protection for certain unregistered designs provided for by the Community Design Regulation will in many situations replace unfair competition rules for the protection against imitations of designs. Also, both patent legislation and rules on unfair competition regarding undisclosed or secret information may be used to protect inventions⁴. Further, copyright or neighbouring rights and the law against unfair commercial practices concur from a comparative perspective in the protection of other objects, such as phonograms and databases. Modern technologies tend to foster this convergence as illustrated by the protection of web pages⁵.

Unfair competition law and trademark law play a significant role in the protection of signs⁶. Typical unfair competition rules such as provisions on misleading and comparative advertising are relevant to determine if the reproduction in commercial communications of a competitor's trademark breaches his exclusive right, as stated in the 15th recital of the preamble to Directive 97/55 and interpreted in *Pippig* and most recently in *O2* by the ECJ⁷. Rules on comparative advertising may also determine whether an advertiser is taking unfair advantage of the reputation of a trade mark or other sign of a competitor⁸. Directive 2005/29/EC on unfair commercial practices includes as misleading commercial practices acts that are likely to deceive the average consumer in relation to the commercial origin of a product -art. 6(1)(b)- and acts that create confusion with any trade marks of a competitor -art. 6(2)(a)-.

³ *Leistner*, Unfair Competition Law Protection Against Imitations: A Hybrid under the Future Art. 5 Rome II Regulation?, in Basedow/Drexler/Kur/Metzger (eds.), *IP in the Conflict of Laws* (2005), p.131. See also *Wilhelmsson*, in: Howells/Micklitz/Wilhelmsson (eds.), *European Fair Trading Law (The Unfair Commercial Practices Directive)* (2006), at 71, discussing that although the Preamble states that the Directive is without prejudice to rules on IP rights (recital 9) the extent of such exception remains unclear since some IP infringements can be deemed unfair practices under the Directive, such as imitations used to mislead the consumer.

⁴ *Godt*, *Eigentum an Information* (2007) at 1-5.

⁵ See *Leistner*, *Creating Cyberspace – IP Law and Competition Law Protection of the Web Designer*, IIC, 2003, 132 ff.

⁶ *Köhler*, *Das Verhältnis des Wettbewerbsrechts zu Recht des geistigen Eigentums*, GRUR, 2007, 548.

⁷ ECJ, 12 June 2008, case C-533/06, *O2*, paras 51 and 69; and ECJ 8 April 2003, case C-44/01, *Pippig*, para. 83.

⁸ ECJ 23 February 2006, case C-59/05, *Siemens*, para 24.

The basic multilateral treaties also reflect the close connection between IP and unfair competition. Under Article 1(2) Paris Convention, the protection of industrial property has as its object patents, utility models, industrial designs, trademarks.... “and the repression of unfair competition”⁹. The examples of activities that Article 10bis lists as prohibited by the law of unfair competition are to a great extent common to activities whose prohibition falls within the purpose of trademark or design law. That is the case of acts that may create confusion with the goods of a competitor –art. 10bis(3)(i)-¹⁰ and indications the use of which in the course of trade is liable to mislead the public –art. 10bis(3)(iii)-¹¹. The TRIPS Agreement only establishes additional standards and specific references to unfair competition concerning the protection of geographical indications (art. 22) and undisclosed information (art. 39).

2. Delimitation between the respective scopes of IP rights and unfair competition law remains an important source of uncertainty in national laws. For example, the boundaries between the use of a sign protected by trademark law, inasmuch as the trademark is attached to goods, and a use which is subject to unfair competition law on acts of confusion or misleading acts diverge and is subject to intense discussions in national legal systems¹². Although IP rights tend to prevail¹³ given that they are the result of the creation of exclusive rights on intangible goods by specific legislation, the treatment of certain issues differs significantly from a comparative perspective: how those fields complement each other (for instance, in situations in which the use of the sign infringes the exclusive right and also causes confusion to the public or deceives

⁹ The Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet, adopted by the Assembly of the Paris Union and the General Assembly of WIPO in 2001 illustrates the concurrence of IP rights and unfair competition law in the protection of signs.

¹⁰ Under Article 16.1 TRIPS the rights conferred to the owner of a registered trademark extends only to activities that use identical or similar signs and can result in a likelihood of confusion.

¹¹ *Ulmer*, IP Rights and the Conflict of Laws,(1978), at 20-21.

¹² Compare, for instance, in Germany, *Glöckner*; Der Schutz vor Verwechslungsgefahr im Spannungsfeld von Kennzeichenrecht und verbraucherschützendem Lauterkeitsrecht and *Bornkammann*, Konfliktzonen zwischen Kennzeichen- und Wettbewerbsrecht, in *Ohly/Klippel*, Geistiges Eigentum und Gemeinfreiheit (2007) 145-179 and 181-198; in Italy, *Di Tullio*, in Ubertazzi (ed.), Commentario breve alle leggi su proprietà intellettuale e concorrenza, 4 ed. (2007), 2080-2082; and in Spain, *Massaquer*, Comentario a la ley de competencia desleal (1999), 81-85.

¹³ *Institut für Europäisches Wirtschafts und Verbraucherrecht (Berlin)* The Feasibility of a General Legislative Framework on Fair Trading (2000), http://europa.eu.int/comm/dgs/health_consumer/library/surveys/sur21_vol1_en.pdf , 3 vol., at 320.

consumers), if it is possible under certain circumstances to apply them cumulatively, or to what extent IP right protection prevails.

Divergences are influenced by the fact that some countries extend trademark law protection to unregistered trademarks on the basis of use while the protection of those signs in other countries falls mainly within the scope of unfair competition law. Furthermore, the limits of trademark protection may be to a certain extent arbitrary, since the requirements established as a prerequisite to infringement, such as the use of the sign as a trademark by the alleged infringer, have traditionally been malleable and subject to historical contingency¹⁴. In most legal systems the determination of when a sign is used in the course of trade as a trademark is subject to interpretation and a clear cut distinction between trademark law and unfair competition law may be lacking. In this connection, a significant debate has arisen about the type of uses of a sign in the Internet that amount to trademark infringements¹⁵. In the EU a uniform interpretation of the term ‘use in the course of trade’ of Article 5(1) of the 1988 Trade Mark Directive is required in order to prevent the protection afforded to the proprietor varying from one State to another, as the ECJ case-law has stressed¹⁶. Nevertheless, uncertainty about when the use of a trade mark by a person who is not its owner constitutes use as a trade mark for the purposes of Article 5(1)(a) of the Directive remains concerning activities such as the use of signs in the Internet as metatags or adwords¹⁷. In practice, it is very common for a trademark proprietor seeking protection against the use by a third party of the sign without authorisation, to bring proceedings based both on trademark and unfair competition law¹⁸. Both fields of law may entitle a trademark owner to commence similar types of actions, for example, to request an order prohibiting the relevant practices and to demand compensation in respect of the damage suffered. Such state of affairs is one example of how the dividing line between trademark protection and unfair competition may be uncertain. The foregoing reflects a situation in which it may be reasonable to use similar choice of law rules leading to the same result

¹⁴ *Dinwoodie/Janis*, Confusion Over Use: Contextualism in Trademark Law, 92 Iowa L. Rev., 1597 (2007) at 1607.

¹⁵ *Efroni*, Keywording in Search Engines as Trademark Infringement – Issues Arising from *Matim Li v. Crazy Line, IIC*, 2007, 204, at 218; and *Dogan/Lemley*, Grounding Trademark Law Through Trademark Use, 92 Iowa L. Rev., 1669 (2007) at 1672.

¹⁶ ECJ, 12 November 2002, case C-206/01, *Arsenal*, para 45; and ECJ 11 September 2007, case C-17/06, *Céline*, paras 16 and 20, with further references.

¹⁷ *Kur*, Confusion Over Use? – Die Benutzung “als Marke” im Lichte der EuGH-Rechtsprechung, GRURInt, 2008, 1, at 10

¹⁸ *Daly*, An Analysis of the American and European Approaches to Trade Mark Infringement and Unfair Competition by Search Engines, EIPR, 2006, 413.

regardless of the characterization of a practice as trademark infringement or unfair competition.

3. Notwithstanding the connections between IP rights and unfair competition, marked differences can be found regarding substantive and procedural law, since unfair competition in particular is not based on the existence of exclusive rights, but rather on rules of conduct. Unfair competition law enables interested parties to demand compliance with certain rules of behaviour and to obtain redress in case of violation of those standards of conduct. By contrast, the protection of IP rights results from the granting of exclusive rights over a specific subject matter. IP disputes involve typically individual actions between parties that litigate over the scope of private rights. Similar individual actions are also common in unfair competition litigation. However, unfair competition law is aimed at protecting consumer and general interests and collective actions are also important. Notwithstanding that, it is possible, as it will be discussed later, to identify certain unfair commercial practices that affect exclusively the interests of certain competitors. Although both sectors are aimed at ensuring the competitive operation of the market and the protection of market participants (in particular consumers), divergences also exist as far as legislative policies are concerned. Diverse policy goals other than market ordering and protection of consumers' economic interests play an important role in IP legislation. Those goals influence the scope of the public domain and the role of IP legislation as an essential tool in the design, among others, of cultural, research, industrial and agricultural policies.

Additionally, unfair competition law rests mainly on general clauses, vague and indefinite phrases or broad concepts that are flexible and show greater possibilities to be adapted to the changing circumstances of the market than the traditionally rigid legislation on IP rights. IP legislation is based on the granting of exclusive rights under rigid requirements as regards the protectable subject matter, formalities, rights conferred and scope of protection. Hence unfair competition law may be effective to protect intangible assets that do not benefit from protection as IP rights. It can also be used against acts that do not fall within the scope of protection of the exclusive right. Further, as already noted, IP and unfair competition law may be jointly applicable to certain activities.

4. Concerning choice of law, not only Regulation 864/2007 (Rome II), with specific provisions on the law applicable to IP infringements and unfair competition acts, makes especially interesting an assessment of the evolution of choice of law rules in these two fields. Changes in technology and the expansion of multi-state activities raise the need to review,

beyond the EU context, certain connecting factors that make the laws of several countries applicable to activities aimed at a plurality of markets. Such a review poses similar challenges to choice of law rules on infringements of IP rights and acts of unfair competition¹⁹, for instance when considering the development of specific rules for multi-state activities or infringements affecting many countries. Under the criteria traditionally used to determine the applicable law, both in the case of IP as well as unfair competition, it is common that Internet activities may be submitted simultaneously to several national legislations.

The impact of those circumstances on cross-border activities turns out to be of particular importance in an integrated space such as the EU, in which there is a full liberalization, among other aspects of the exchange of goods, services and capital. Nevertheless, in that which concerns the impact on IP and unfair competition of the requirements arising from the functioning of the internal market, coincidences are observed, but important differences can also be found, for example, those having to do with the scope of mutual recognition and the origin principle.

II. Jurisdiction: an Overview

1. Cross-border IP infringements and acts of unfair competition

5. Article 2 Brussels I Regulation establishes the general competence of the court of the defendant’s domicile. Based on the general nature of the jurisdiction allocated in Article 2, a person domiciled in a Member State may in principle be sued in the courts of that state even if the dispute relates to the infringement of IP rights protected in other countries in the EU or anywhere in the world²⁰. Also, concerning disputes on unfair commercial practices jurisdiction based on Article 2 is not limited to acts that have certain specific connection with that country.

The Brussels I Regulation has some alternative rules of jurisdiction. According to article 5(3), in matters relating to tort a person domiciled in a Member State may be sued “in the courts for the place where the harmful event occurred or may occur”. That rule is intended to comprise all the actions which seek to establish the liability of the defendant and which are

¹⁹ *Ohly*, Choice of Law in the Digital Environment – Problems and Possible Solutions, in: Drexler/Kur (eds.), *IP and Private International Law* (2005) 241, at 243 and 251-252.

²⁰ *Grabinski*, Zur Bedeutung des Europäischen Gerichtsstands- und Vollstreckungsübereinkommens (Brüsseler Übereinkommens) und des Lugano-Übereinkommens in Rechtsstreitigkeiten über Patentverletzungen, *GRUR Int*, 2001, 199, at 202-203

not related to a contract in the sense of Article 5(1)²¹. IP infringements and unfair competition practices are considered tortious actions and therefore covered by article 5(3).

The place of the harmful event is hard to determine in situations in which objects protected by IP are used or unfair commercial practices are carried out through ubiquitous media, such as the Internet. In this connection, the better view is that mere accessibility of the relevant content (for instance, a web page) in the forum should in principle not be sufficient to grant jurisdiction under article 5(3)²². On the contrary, the fact that the defendant directed by any means its activities to the forum country may be sufficient to consider that as regards the adjudication of IP infringements or unfair commercial practices committed by those activities that country is a place where the harmful event occurred. The interests underlying the development of specific criteria for infringement claims resulting from conduct carried out through the Internet apply in similar terms to infringement of IP rights and unfair competition claims. Under § 204 ALI Principles the criterion that the defendant “directs” the alleged infringement into the forum, in particular, if it is reasonable to conclude from the defendant’s behaviour that he sought to enjoy the benefits of engaging with the forum, is an appropriate basis to grant jurisdiction that may apply both to IP infringements and to unfair competition practices.

According to the *Shevill* doctrine²³, when a tort causes damages in several countries, article 5(3) allocates jurisdiction to the courts of those countries only in respect of the harm caused in the territory of the court seised. Therefore, a court that only has jurisdiction by virtue of the circumstance that it is one of the countries where the damage happened may only adjudicate a claim relating to the harm caused in its own country. Without prejudice to the general jurisdiction of the courts of the defendant’s domicile, this approach leads to fragmentation not only in IP infringement claims but also in disputes concerning unfair commercial practices having effects in several countries. Such fragmentation may result in a heavy procedural burden on persons fighting multiterritorial harm caused by Internet infringements²⁴. In *Shevill* the ECJ did not rule out the possibility to allocate jurisdiction under 5(3) without that limitation to the courts of the place where the harmful event originated

²¹ ECJ 27 September 1988, case 189/87, *Kalfelis*, paragraph 17.

²² *Bettinger/Thum*, Territorial Trademark Rights in the Global Village – International Jurisdiction, Choice of Law and Substantive Law for Trademark Disputes on the Internet, IIC, 2000, 162, at 167.

²³ ECJ 7 March 1995, case C-68/93, *Shevill*.

²⁴ *Ginsburg*, The Private International Law of Copyright in an Era of Technological Change, R. des C., 1998, vol. 273, 243, at 307-308.

and from which the infringing content was put into circulation in the rare situations in which that place does not coincide with the defendant’s domicile²⁵. The distinction between the limited jurisdiction of the country in which the damage occurs and the potentially broader jurisdiction of the country in which the event giving rise to the damage takes place, remains controversial in the field of IP and unfair commercial practices litigation. The facts of *Shevill* differ from the traditional multinational IP infringement cases, such as activities infringing European bundle patents, because territoriality implies that infringements in multiple countries are a consequence of activities performed in each of those countries²⁶. Moreover, the broader reach of the jurisdiction of the courts of the country in which the action causing the tort occurred may conflict with the traditional view –in patent litigation- that due to territoriality of IP rights, contributory acts performed outside the country where the IP right is protected –and, therefore, infringed- should not be considered as relevant connecting factors to allocate jurisdiction for infringement claims²⁷. However, infringements of IP rights and unfair commercial practices committed through ubiquitous media, such as the Internet, may present situations which are closer to the facts of *Shevill* than traditional multinational patent infringements and hence could justify the broader reach under Article 5(3) of the jurisdiction based on the place from which the harmful conduct originated²⁸.

2. Divergences resulting from restrictions to adjudicate IP disputes

6. Article 22(4) Regulation 44/2001 grants exclusive jurisdiction in proceedings concerned with the registration or validity of IP rights subject to registration to the courts of the Member State in which the registration has been applied for, has taken place or is deemed to have taken place. This rule has become a significant factor of divergence between the adjudication of infringement claims on registered industrial property rights on the one hand and copyright and unfair competition on the other hand. Article 22(4) does not apply to copyright and related rights, since copyright is protected without any formalities –as stated in Article 5(2) of the Berne Convention- and its existence is not subject to a procedure of

²⁵ See especially paras. 24 and 26 of the *Shevill* judgment.

²⁶ *Brinkhof*, *Geht das grenzüberschreitende Verletzungsverbot niederländischen einstweiligen Verfügungsverfahren zu weit?*, GRUR Int, 1997, 489, 491.

²⁷ *Meibom/Pitz*, “Cross-Border injunctions in International Patent Proceedings”, EIPR 1997, 469, 470.

²⁸ *De Miguel Asensio*, *Derecho privado de Internet*, 3 ed (2002), at 185-196 and 306-318. See also § 204(1) ALI Principles.

registration²⁹. The rationale behind this exclusive jurisdiction is related to the idea that IP rights whose existence is subject to registration are created by a decision of a public body and grant exclusive rights that affect significant public interests within the territory of that country, whose courts are considered to be best placed to adjudicate upon cases in which the dispute itself concerns the validity or registration of the IP right. Given that Article 22(4) is an exception to Article 2, the issues covered by the rules of Article 22 must be limited to what it is essential to achieve their purposes. Article 22(4) Regulation 44/2001 has a restrictive nature and hence it does not cover other actions, such as those for infringement of registered IP rights or those relating to unfair commercial practices.

However, in practice cross-border IP infringement litigation – contrary to unfair competition claims – has been deeply influenced by the exclusive jurisdiction rule. It is very common for a defendant in an infringement claim to challenge the validity of the IP right allegedly infringed. In *GAT*³⁰ the ECJ held that the exclusive jurisdiction provided for by Article 22(4) should apply whatever the form of proceedings in which the issue of a patent’s validity is raised, be it by way of an action or as a defence. The arguments of the ECJ in the *GAT* judgment and the result reached have received strong criticisms³¹, but Article 22(4) of the revised Lugano Convention of 2007 has codified the interpretation given in the *GAT* Judgment.

²⁹ Most countries have established optional copyright registration mechanisms that set up a public record of copyright claims and provide some advantages to copyright owners, such as to establish prima facie evidence in court of the validity of the copyright and of the facts stated in the register. Concerning proceedings which have as their object the validity of entries in public registers, Article 22(3) of Regulation 44/2001 grants exclusive jurisdiction to the Courts of the Member State in which the register is kept. Because of the limited effects of copyright registers, article 22(3) does not in principle encompass disputes such as those relating to the existence, infringement or exploitation of copyright or to the entitlement to the right.

³⁰ ECJ 13 July 2006, case C-4/03, *GAT*.

³¹ *Kur*, A Farewell to Cross-Border Injunctions? The ECJ Decisions *GAT v. LuK* and *Roche Nederland v. Primus and Goldenberg*, IIC, 2006, 844, at 847-849; *CLIP*, Exclusive Jurisdiction and Cross-border IP (Patent) Infringement: Suggestions for Amendment of the Brussels I Regulation”, EIPR, 2007, 195, at 199-200; *Wilderspin*, La compétence juridictionnelle en matière de litiges concernant la violation des droits de propriété intellectuelle, Rev.cr.dr.int.pr., 2006, 777, at 785-788; *González Beilfuss*, Nulidad e infracción de patentes en Europa despues de *GAT* y *Roche*”, AEDIPr, vol. VI, 2006, 269, at 273-278; *Heinze/Roffael*, Internationale Zuständigkeit für Entscheidungen über die Gültigkeit ausländischer Immaterialgüterrechte, GRUR Int, 2006, 787, at 791-796; and *Adolphsen*, Renationalisierung von Patentstreitigkeiten in Europa, IPRax, 2007, 15, at 17-19.

7. The effect of *GAT* seems to be to rule out the possibility of obtaining cross-border relief in Europe concerning IP rights registered in foreign countries in cases in which the alleged infringer challenges the validity of the foreign IP right, in as much as the exclusive jurisdiction provided for in Article 22(4) includes the competence to adjudicate invalidity as an incidental matter³². If the *GAT* judgment and article 22(4) of the revised Lugano Convention are to be understood as compelling the courts of the Member States to always paralyze infringement proceedings by the mere fact that the invalidity of a foreign patent is invoked by the alleged infringer it would have extremely unfortunate consequences on the availability of effective cross-border IP protection in Europe. Therefore, it is important to reach an understanding of the *GAT* judgment compatible with the adjudication under certain circumstances of infringement claims of IP registered in foreign countries³³.

The Court seized with the infringement claim has at its disposal several options, including to stay the proceedings until there has been a ruling on the validity issue and to continue with the proceedings if the defendant is acting in bad faith. If a reasonable doubt about the validity of the existing IP right has not been raised by the defendant's activity before the infringement court and the defendant has not initiated annulment proceedings in the competent court, it could be appropriate for the court seized with the infringement action to decide whether to grant protection to the claimant while considering valid and existing the registered IP right. In deciding how to act the court may consider whether the validity is challenged *bona fide* by the defendant and also the relative importance of the issues of validity and infringement in the dispute. Additionally, if the court seized with the infringement proceedings considers likely the annulment of the patent by the competent court or uncertain its existence or validity under the applicable law it could stay its proceedings allowing the defendant to obtain a judgment on validity and if necessary to adopt provisional measures³⁴. Once the judgment on the validity is rendered or if the time limit established by the court has elapsed without the annulment proceedings being initiated, the court seized with the

³² *Schauweker*, Zur internationalen Zuständigkeit bei Patentverletzungen, GRUR Int, 2008, 96, 103.

³³ *De Miguel Asensio*, Cross-Border Adjudication of Intellectual Property Rights and Competition between Jurisdictions, AIDA, 2007, 105, 143 ff.

³⁴ That possibility was suggested by the Advocate General in his Opinion of 16 September 2004 in the *GAT* case (para. 46) and has already been used by the Swiss courts in the application of Article 16(4) of the Lugano Convention after the *GAT* judgment, see Decision of the Zürich *Handelsgericht* of 13 October 2006, see *Hess-Blumer*, Crossborder Litigation - und sie lebt doch!: Anmerkungen zu einem Beschluss des Handelsgerichts des Kantons Zürich vom 13. Oktober 2006, Sic! (Zeitschrift für Immaterialgüter-, Informations- und Wettweberbsrecht), 2006 (12), at 882-888.

infringement claim could adjudicate that claim taking for valid the existing foreign IP right.

III. Background and rationale of the choice of law rules

1. Territoriality, *lex loci protectionis* and *lex originis*

a) Industrial property rights

8. Non-physical objects (signs, inventions....) can in principle be used in any location and its exploitation can take place simultaneously in different countries. Hence location of IP rights to determine the applicable law has to meet specific criteria³⁵. Spatial protection and validity of industrial property rights is limited to the territory of the State that grants them. The exclusive right granted by the public power is only protected with respect to the territorial area corresponding to the entity that grants it. A consequence of the territoriality of industrial property rights is the independence of the rights on the same object (invention, sign, design...) relative to the different countries in which a right has been granted. Further, infringing acts can only be committed within the corresponding territory of protection.

Territoriality greatly influences international conventions³⁶ and conflict-of-laws rules in the field since the restricted spatial scope of industrial property rights means that existence and protection concerning a given territory should be determined by the law in force in that country. From a comparative perspective it is commonly accepted that the applicable law to the protection of industrial property rights is that of each country for which protection is sought. This rule has been adopted in most modern PIL acts and has also been traditionally applied in other systems in the absence of specific provisions. The criterion adopted responds to the consideration that it deals with regulations that are not substitutable nor interchangeable with those of other countries, but rather solely applicable

³⁵ Although historically some authors advocated the application of the *lex rei sitae* rule also to IP rights, they added specific criteria to apply such a rule to those rights, mainly by stating that the *lex rei sitae* in this area must be understood as the law of the country that granted the exclusive right, see *Nirk, Zum Anwendungsbereich des Territorialitätsprinzips und der Lex Rei (sitaе) im internationalen Patentrecht*, in *Ehrengabe für Heusinger* (1968), 229.

³⁶ *Ulmer, Copyright and Industrial Property. General Questions - The International Conventions*, *International Encyclopedia of Comparative Law*, vol. XIV, chapter 1, 1987, at 5-6.

in relation to the exclusive rights granted by a concrete public power³⁷. Nonetheless, territoriality does not exclude that under certain circumstances the application of the *lex loci protectionis* may require to give effect to rules of other legal systems³⁸.

9. The generalized resort to the *lex loci protectionis* rule in the comparative scene also corresponds to the regime set forth in the basic multilateral treaties, although such treaties are not aimed in principle at solving applicable law issues³⁹. Multilateral treaties in this area affirm territoriality and independence as basic features of national rights. In the field of industrial property rights, article 2(1) Paris Convention and article 3 TRIPS Agreement enshrine the principle of national treatment. This principle establishes a standard concerning the treatment of foreigners that requires that certain foreigners enjoy in each country of the Union the rights which their respective laws grant to their own nationals. Focusing on that circumstance it has been argued that such principle can be fulfilled by merely applying to all beneficiaries of such provisions the same choice of law rule that the law of the forum establishes for its own nationals, provided that nationality is not used as a connecting factor⁴⁰.

However, the prohibition to use connecting factors that may result in differences of treatment between nationals and foreign beneficiaries seems to raise also important doubts about connecting factors other than nationality. For instance, in case the domicile or the habitual residence were used as connecting factors it should be considered that under Article 2(2) Paris Convention "no requirement as to domicile or establishment in the country where protection is claimed may be imposed upon nationals of countries of the Union for the enjoyment of any industrial property rights"⁴¹. Even compatibility with the national treatment principle of a choice of law rule based on the law of origin has been challenged

³⁷ Sandrock, *Das Kollisionsrecht des unlauteren Wettbewerbs zwischen dem internationalen Immaterialgüterrecht und dem internationalen Kartellrecht*, GRUR Int, 1985, 507, pp. 514-515.

³⁸ For example, rules of the "country of origin" influence the application of the right of priority under Article 4 of the Paris Convention or the *telle quelle* protection of trademarks under Article 6 quinquies, *Vivant*, *Régime international*, J.-Cl. dr. comm., Brevets, fascicule 560 (2, 1992), 1, 7.

³⁹ *Meinhardt*, *Conflict Avoidance in the Law of Patents and Trademarks*", 23 *LCP*, 1956, 533, n. 1; *Troller*, *Das internationale Privat- und Zivilprozessrecht im gewerblichen Rechtsschutz und Urheberrecht*, (1952), at 8; and *Ulmer*, (*supra*, note 11), at 6.

⁴⁰ *Pertegás Sender*, *Patent Infringement, Choice of Laws, and the Forthcoming Rome II Regulation*, Basedow/Drexler/Kur/Metzger (eds.), (*supra*, note 3), 159, at 161-162.

⁴¹ Additionally, in case the choice of law rule establishes that the applicable law shall be forum law it could be relevant to assess to what extent jurisdiction rules are based on nationality.

inasmuch as it could lead to differences in protection that undermine the basic principle⁴².

Regardless of the controversial implications of national treatment, it seems undisputed that territoriality and independence of national rights decisively affect rules on the law applicable to those rights. The nature of the rights concerned leaves States little room when establishing choice of law rules that meet the principle of national treatment and the implications of territoriality. In fact, in those systems in which the choice of law rules on the protection of IP rights use as connecting factor the place of infringement or use of the IP right or the *lex loci delicti*, as it is common in most systems in which no specific rule exists for IP, the prevailing interpretation is that the place of infringement is the country for which protection is claimed⁴³. Because of their limited territorial scope, national IP rights can only be infringed in the country of protection. Therefore, the *lex loci delicti* and the *lex loci protectionis* lead to the same result in this field, leaving aside Community rights.

The view that territoriality and independence as basic features of industrial property rights in the Paris Convention combined with the principle of national treatment lead in practice to the *lex loci protectionis* as an implicit choice of law rule for the protection of those rights achieved significance acceptance⁴⁴. However, given the controversy on the issue and that neither the Paris Convention nor the TRIPS Agreement are aimed at establishing choice of law rules, it seems appropriate from an international perspective to accept that the view that those conventions impose an implicit choice of law rule has not achieved general acceptance in the interpretation of those conventions in all contracting states. Such situation has significant consequences for the drafting and evolution of choice of law rules in this area. For example, within the EU it may be relevant to conclude that, although Article 28 Rome II Regulation states that the Regulation shall not prejudice the application of international conventions to which Member States are parties at the time of the adoption of the Regulation which lay down conflict-of-law rules relating to non-contractual obligations, the inclusion of a specific rule on the law applicable to infringements of IP rights in the Regulation is appropriate⁴⁵.

⁴² Fentiman, “Choice of Law and Intellectual Property”, Drexl/Kur (eds.), (*supra*, note 19) 129, 134 ff.

⁴³ On the interpretation of Article 34(1) Austrian PIL Act, see Hiestand, *Die Anknüpfung internationaler Lizenzvertrag*, (1993), 82.

⁴⁴ MünchKommBGB(2006)/Drexl, *IntImmGR*, RdNr 50 ff; Jiménez Blanco, *El derecho aplicable a la protección internacional de las patentes*, (1998), 22 ff.

⁴⁵ *Hamburg Group for Private International Law*, Comments on the European Commission’s Draft Proposal for a Council Regulation on the Law Applicable to Non-Contractual Obligations, *RabelsZ*, 2003, 1, at 21-22.

Furthermore, from the international perspective it leads to the conclusion that in the relevant international conventions issues concerning the scope of application of the *lex loci protectionis* remain open, since certain alternatives or limits to that rule, especially as far as the remedies available in case of infringement are concerned, may be compatible with the territorial nature of industrial property rights, as it will be discussed later.

b) Copyright and related rights

10. The line of thought that, departing from a unitarian and universal conception of IP rights, leads to the application of the law of the country of origin⁴⁶ has achieved significant acceptance only in the field of copyright and other IP rights not subject to registration. Criticisms of resorting to the *lex originis* leave no room to doubt its inappropriateness in the area of registered industrial property rights⁴⁷, since those rights are granted by national (or supranational) bodies. Application of the *lex loci protectionis* rule to determine the initial title to copyright has become increasingly challenged, because it results in a country-by-country approach that may impair the exploitation of works at international level. However, certain risks of inconsistencies may arise in systems in which initial ownership is governed by the *lex originis*, since it leads to the application of different choice of law rules to parallel registered and unregistered rights that show an increasing trend to overlap⁴⁸.

Significant differences between national laws can be found with respect to the initial title to works created within the framework of a labour relationship or in general produced by means of a contract or resulting from another previous relationship; for instance, presumptions of transfer of rights of different scope in favour of different persons. The position of creative contributors in countries based on the copyright approach is weaker than in countries that follow the *droit d'auteur* approach. The idea has obtained considerable acceptance that the law governing the original title or author of the works is divisible from the protection of IP rights and must be determined based on different criteria,

⁴⁶ Pillet and Bartin were among the authors that considered that the industrial property rights granted in different countries on the same object do not produce a group of rights independently, but rather demonstrate a unitary character in attention to the identity of its object that justifies its submission to a single law, see *Derruppé*, *Propriété industrielle*, *Encyclopedie Dalloz dr. int.* (1969), p. 678; see also *Neuhaus*, *Freiheit und Gleichheit im internationalen Immaterialgüterrecht*, *RabelsZ* (1976), pp. 191-195..

⁴⁷ *Troller*, *Neu belebte Diskussion über das internationale Privatrecht im Bereich des Immaterialgüterrechts*, in *Problemi attuali del diritto industriale* (1977), pp. 1128-1132.

⁴⁸ *Ohly* (*supra*, note 19), at 249-250.

such as the domicile of the creator or the place of first publication, that make a single location possible in the law of origin⁴⁹. Additionally, in relation to litigation relative to the rights of exploitation of audiovisual works or other subject matter created pursuant to a previous relationship the derivative title resulting from the existence of a contract may be decisive. Under those circumstances, the law applicable to the contract, especially if it is an employment relationship, can also govern original entitlement⁵⁰.

In the field of copyright and related rights Article 5(2) of the Berne Convention states 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”. Additionally, Article 5(1) establishes the principle of national treatment that is reiterated in Article 3 of the TRIPS Agreement. As the Convention is founded on the idea that rights are territorial it also leads to a system in which the *lex loci protectionis* has to be the basic conflict of laws rule. In this connection, the idea that Article 5(2) leads to the *lex loci protectionis* criterion as the conflict of law rule to be applied concerning the protection of copyright and related rights has also gained significant acceptance.

However, the nature of Article 5(2) Berne Convention as a conflict rule remains controversial. As noted earlier, its nature as a choice of law rule has been challenged stressing its aim of creating substantive minimum rights and abolishing discrimination against foreign authors. According to this view Article 5 Berne Convention does not affect the freedom of States to adopt the conflict rules they deem appropriate and its paragraph 2 has to be understood as reaffirming that the protection of foreign authors may not be subject to any formalities and that no reciprocal protection may be required⁵¹.

11. The antagonism between *lex loci protectionis* and *lex originis* is in practice limited to the choice of law rule on initial ownership. As regards scope of protection and infringement of rights the *lex loci protectionis* is also generally accepted in the field of copyright and related rights⁵². Although, choice-of-law rules on copyright diverge to a considerable extent even

⁴⁹ *Xalabarder*, La protección internacional de la obra audiovisual, RIDA, 2002, 3, 41 ff.

⁵⁰ *van Eechoud*, Alternatives to the Lex Protectionis as the Choice-of-Law Rule for Initial Ownership of Copyright, Drexl/Kur (*supra*, note 19) 289, 306-307; y § 313(1)(c) *ALI Principles*.

⁵¹ *van Eechoud*, Choice of Law in Copyright and Related Rights: Alternatives to the Lex Protectionis, (2003).

⁵² *Obergfell*, Das Schutzlandprinzip und Rom II (Bedeutung und Konsequenzen für das Internationale Urheberrecht), IPRax, 2005, 9, at 10.

within the EU, divergences refer mainly to the law applicable to the initial title or authorship. By contrast, the law applicable to the infringement (and scope of protection) of such rights in all countries is in general the *lex loci protectionis*⁵³. A number of countries, such as Portugal, Greece and Romania follow, at least to certain extent, an approach based on the application of the law of the country of origin⁵⁴. Even though the relevant choice of law rules may be drafted in very broad terms, application of the law of origin is typically restricted to the issue of the initial entitlement or authorship. For instance, article 48.1 of the Portuguese *Código civil* refers to the application of the law of origin (place of first publication or the author’s personal law) to copyright in general, but it is widely accepted that beyond initial entitlement or authorship that rule is displaced by the *lex loci protectionis* criterion in line with the provisions of the Berne Convention⁵⁵. In Romania, although Article 60 PIL Act determines that copyright is governed by the law of origin, according to Article 62 the law applicable to infringements is the law of the place of infringement⁵⁶. Finally, also in other countries in which a *lex originis* approach is followed by case-law, such as France, its application is also limited to the determination of initial entitlement or authorship of copyright⁵⁷.

In fact, those who consider that international conventions do not prescribe the *lex protectionis* admit that it is the appropriate conflict rule for at least existence, scope and duration of IP rights, given that national IP legislations determine what is and is not in the public domain and seek a balance between individual interests and those of the community in order to foster production and dissemination of information. The choice of law rule on the existence and scope of IP rights has to be based on the place of use of the right in order to ensure the coherence of the national IP system⁵⁸. However, exceptions to which the *lex originis* is applicable can be found even with regard to countries that apply to all copyright issues the

⁵³ Drexl, The Proposed Rome II Regulation: European Choice of Law in the Field of IP, Drexl/Kur (eds.), (*supra*, note 19) 151, 166-167.

⁵⁴ Siehr, Das Urheberrecht in neuen IPR-Kodifikationen, *UFITA*, vol. 108, 1988, pp. 9-25; and Schack, Urheber- und Urhebervertragsrecht, 4 ed, 2007, pp. 462-464.

⁵⁵ Moura Vicente, Direito internacional de autor, *id.*, *Direito internacional privado (Ensaio, vol I)*, 2002, pp. 106-143, pp. 128-129.

⁵⁶ Căpățină, Das neue rumänische Internationale Privatrecht, *RabelsZ*, 1994, 465, 494.

⁵⁷ On the scope of the *lex originis* and the *lex loci protectionis* in France, see. Bergé, La protection internationale et communautaire du droit d’auteur (1996), at 174-229. The origin principle does normally not apply in the field of related rights, see, Azzi, Recherche sur la loi applicable aux droits voisins du droit d’auteur en droit international privé (2005), at 245 ff.

⁵⁸ van Eechoud, The Position of Broadcasters and Other Media under Rome II, IRIS plus, Legal Observations of the European Audiovisual Observatory, 2006-10, 2, at 6.

law of the country for which protection is claimed. One such example is the specific community framework concerning satellite broadcasting and cable retransmissions under Article 1(2) Directive 93/83/EC. In order to abolish obstacles to the free movement of services the Directive specifies that the act of communication takes place only in the Member State where, the program-carrying signals are introduced into an uninterrupted chain of communication. That rule is merely an exception to the territorial nature of IP rights, as stressed by the ECJ in its *Lagardère* judgment⁵⁹.

2. The market effects rule

a) Tort liability vs. unfair competition

12. Article 10bis Paris Convention was drafted in line with the classical or corporative model and its general clause defines unfair competition as any act of competition contrary to honest practices. Unfair competition law has evolved from a so-called corporative model, focused on the individual protection of businesses in competition, to a social or institutional model in which the protection of consumers and public interests is also decisive. The origin and wording of Article 10bis should not be an obstacle in practice to its interpretation in line with the social or institutional model. Article 10bis only provides a general framework since national interpretations of what are honest practices differ and the list of examples contained in paragraph 3 leave plenty of room for interpretation. In recent years progress has been made in the creation of international standards. For instance, the WIPO published in 1996 its "Model Provisions on Protection against Unfair Competition"⁶⁰. Additionally, private organizations have also been active in drafting rules aimed at establishing internationally accepted standards in this area, as illustrated by the Consolidated ICC Code on Advertising and Marketing Communication Practice of 2006.

The evolution towards the institutional model has fostered convergence even with countries whose unfair competition law has traditionally been fragmented and unsystematic such as the US where unfair competition was for a long time considered only as a branch of trademark law⁶¹ and the UK where the tort of passing off was also much

⁵⁹ ECJ 14 July 2005, case C-192/04, *Lagardère*, (para 46)

⁶⁰ *Bodewig*, International Protection Against Unfair Competition - Article 10 bis Paris Convention, TRIPS and WIPO Model Provisions, IIC, 1999, 166, 187-189.

⁶¹ See *Haines*, Efforts to Define Unfair Competition, *Yale L.J.* (1920), 1, 2; and *Rappeport*, Trade-mark and Unfair Competition in International Conflict of Laws: An Annalysis of the Choice of Law Problem, 20, *University of Pittsburgh Law Review*, 1958, 1, at 8-14.

narrower concept than that of unfair competition in other European countries⁶². Article 5(2) of Directive 2005/29/EC, that only covers business to consumer relationships, provides a common definition of unfair commercial practice that includes all practices contrary to the requirements of professional diligence and those practices that materially distort or are likely to materially distort the economic behaviour with regard to the product of the average consumer whom it reaches or to whom it is addressed.

13. There is wide consensus on the comparative scene regarding the idea that liability resulting from acts on unfair competition falls, as far as the determination of the relevant conflict rule is concerned, within the torts area. Furthermore, in order to determine the law applicable to acts of unfair competition and in particular to non-contractual liability arising from them, the so-called market effects principle has achieved wide acceptance in most systems⁶³. This evolution corresponds to the function of unfair competition law, which is different from that which characterizes the general field of tort liability focused on individual compensation for the damage suffered. Differing from this, the rule on unfair competition is channelled towards the protection of collective interests of the market participants (including consumers) as well as the general interests of a single market law. Under the current institutional model, choice of law rules on unfair competition are closely related to those on IP rights and antitrust law, even in situations in which private claims by consumers arise out of an unfair commercial practice⁶⁴.

⁶² *Dyer*, Unfair Competition in Private International Law, *R. des C.*, vol. 211, 1988, 373, at 391-396. The significance of the specificity of the UK in comparison with other European countries as an obstacle to harmonization within the EU remains controversial, see *Wadlow*, Unfair Competition in Community Law (Part 2): Harmonisation Becomes Gridlocked, *EIPR*, 2006, p. 469-473.

⁶³ *Bureau Permanent de la Conférence de La Haye*, Les conflits de lois en matière de concurrente déloyale, April 2000, doc. Prel., n. 5; *Kort*, Zur multistate problematik grenzüberschreitender Fernsehwerbung, *GRURInt*, 1994, 594, at 595-597; *Thünken*, Multi-State Advertising over the Internet and the Private International Law of Unfair Competition, *ICLQ*, 2002, 909, 914-915; *MünchKomm(1998) – Kreuzer Art 38 RdNr 233*; *MünchKommBGB(2006)/Drexler*, *IntUnlWettbR*, RdNr, 5. *Brömmelmeyer*, Internetwettbewerbsrecht (2007), 124 (stressing the differences between the *Marktortprinzip* and the *Auswirkungsprinzip*) and *Kadner Graciano*, La responsabilité délictuelle en droit international privé européen (2004), pp. 88-90. About the initial discussion on the meaning of the market as connecting factor, see *Wengler*, Laws Concerning Unfair Competition and the Conflict of Laws, *AJCL*, 4, 1955, 167, at 171-183; and *Bischoff*, La concurrence déloyale en droit international privé, *Travaux Com. fr. dr. int. pr.*, 1969-1971, 53, at 60-66.

⁶⁴ *Koos*, Rom II und das Internationale Wirtschaftsrecht, *ELF*, (2006)(4), II-73, at 73-74.

While the rules on the law applicable to tort liability respond basically to general objectives of proximity, in the area of unfair competition the respect for the function and purposes of this field requires a specific approach. The law dealing with competition is part of the economic framework of a country⁶⁵. Although unfair competition rules appear oriented to protect private interests, mainly those of competitors and consumers, they are also decisive to protect the collective interest in the efficient functioning of the market. Hence, the market constitutes a decisive factor in order to determine the applicable law. Among the basis for the market effects rule is the principle of protection without omissions for consumers in the national market as well as guaranteeing the equality of competitive conditions in that market⁶⁶. Therefore the rules of the country (market) in question can not be replaced by rules of foreign law⁶⁷. The application of the same competition rules to all commercial activities targeting a given market is considered essential to guarantee that all competitors in a market compete for clients under the same rules. The application of all private law rules ordering the conducts of market participants with the aim to ensure fairness of commercial activities in order to protect public interest objectives and the economic interests of consumers, competitors or other market participants should fall within the subject matter of the specific choice of law rules on unfair competition.

In relation to the control of fairness of commercial activities performed in a plurality of markets, the application of the law of a single State to all such activities in the group of countries will normally lead to a solution incompatible with the basis and objectives of the legislation on unfair competition. In fact, in the interpretation of rules establishing that the law applicable to a noncontractual obligation arising out of an act of unfair competition is the law of the damage, such as Art. 99 Belgian PIL Code, it is accepted that the law of each State where competition is taking place should apply⁶⁸. Even in systems in which there does not exist a specific conflict-of-laws rule on unfair competition the prevailing interpretation is that in relation with these infringements the *lex loci delicti commissi* must correspond to the country in which the conflict of competitive relations or the relevant consumer interests are located. Typically, it leads to a result that corresponds to the expectations of the injured party because it favours the application of the law of his economic environment. Inasmuch as it is a place where many different interests and

⁶⁵ MünchKommBGB(2006)/Drexl, IntUnlWettbR, RdNr, 5.

⁶⁶ Virgós Soriano, El comercio internacional en el nuevo Derecho español de la competencia desleal (1993) at 31-34.

⁶⁷ Troller, Unfair Competition, Int.Enc.Comp.L., vol. III, cap. 34, 1978, pp. 1-18, p.

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⁶⁸ See also § 301 ALI Principles and Comment (g).

relations come together, the market is preferable as connecting factor in this field to a connection focused on the consequences that the tortious act produces only in the legal sphere of a single subject, a competitor or a consumer⁶⁹. Therefore, in case those relations or interests are located in various countries the *lex loci delicti commissi* must correspond with that of each of those countries in which the market participants are influenced.

14. When applying the market effects rule it has been usual to establish a classification of unfair commercial practices. It is well-known a distinction between three categories of acts considering the interests that are principally harmed by a given practice: the interests of consumers, the interests of competitors or those of the market as a whole. Although unfair competition law protects competitors, consumers and the general public and ensure that the market economy functions properly, such a typology is based on the idea that there are certain acts that affect mainly the market as a whole (such as regulations on special sales and discounts), some acts that affect above all consumer collective interests (such as provisions on misleading advertising), and certain acts that target a specific competitor⁷⁰.

Others consider that such a classification may in practice be a source of uncertainty since delimitation between these categories may result unclear in practice. The relevant market is located where the act of competition considered –offer- meet its counterpart –demand-⁷¹. The market effects rule inasmuch as it leads to the application of the law of the country in which the conflict of competitive relations or the relevant consumer interests are located seems the most appropriate criterion regardless of the specific category in which a practice may be classified, except where the act of unfair competition affects exclusively the interests of a specific competitor, such as bribery of employees and enticement to betray secrets, as it will be discussed in connection with Article 6(2) Rome II Regulation.

b) Specific restrictions on advertising of certain products

15. Illustrative of the meaning of the market effects principle for the regulation of commercial activities is that such criterion is also commonly used to determine the applicability of other advertising restrictions. The interests protected by such restrictions vary depending on the kind of

⁶⁹ *Honorati*, *The Law Applicable to Unfair Competition*, Malatesta (ed.), *The Unification of Choice of Law Rules on Torts and Other Non-Contractual Obligations in Europe*, (2006) 127, at 148.

⁷⁰ *MünchKomm*(1998) – Kreuzer Art 38 RdNr 243 ff.; *Virgós Soriano* (*supra*, note 66), at 59-126.

⁷¹ *Dethloff*, *Europäisierung des Wettbewerbsrecht*, (2001), at 64-65.

products concerned (alcohol, medicines, gambling, financial services...), but the objectives pursued turn out normally to be completely satisfied if their territorial scope covers the activities that produce substantial effects in the market of the country imposing the restrictions. So, when those rules do not establish their own criteria for defining their territorial scope of application, the relevant factor will normally be the same used with regard to unfair advertising in general, the market effects principle.

For instance, although Directive 2001/83/EC relating to medicinal products does not contain any rule establishing its territorial scope of application, the market effects rule applies. In this connection, Article 88.3 of the Directive allows Member States to ban, on their territory, advertising to the general public of medicinal products the cost of which may be reimbursed. The same criterion has traditionally been used by Member States to advertising restrictions of other products or services, such as gambling activities. Key to establish liability in those cases is typically the development of the activity in the territory of the country that adopts the prohibition for which reason it turns out to be decisive that the commercial activity is aimed at that territory⁷².

16. As an exception, it must be noted that some restrictions on the advertising of certain products define their territorial scope of application on the basis of different criteria. That circumstance seems to be related to the social importance of the aims pursued by those rules that justify their application beyond the market effects rule. Under Article 13 (2) of the 2003 WHO Framework Convention on Tobacco Control, each contracting Party shall undertake a comprehensive ban of all tobacco advertising and promotion, including a comprehensive ban on cross-border advertising and promotion originating from its territory. Therefore, the basic rule is that prohibitions shall include all advertising originating in each Contracting State even if exclusively directed to foreign markets⁷³.

In this connection, Article 3 Directive 2003/33/EC establishes that tobacco advertising in printed media and information society services shall be limited to publications intended exclusively for professionals in the tobacco trade and to publications which are printed and published in third countries, where those publications are not principally intended for the Community market. Hence, it can be argued that the Directive does not use only the market effects principle. That criterion, referring to publications and information society services mainly directed to the EU

⁷² *Verbiest/Keuleers*, Cross-Border Gaming: The European Regulatory Perspective, *Gaming LR*, 2003, 185, at 194-195.

⁷³ *De Miguel Asensio*, Régimen jurídico de la publicidad transfronteriza (2005), 270 ff.

seems only decisive with respect to those which are printed and published outside the EU. By contrast, the application of the prohibition to media and information society services printed and published in the EU is not subject to that restriction⁷⁴.

IV. Unification of choice of law rules in the EU

1. Infringement of IP rights

17. Unification of the law applicable to the infringement of IP rights in the Rome II Regulation is based on “the universally acknowledged principle of the *lex loci protectionis*”, as stated in paragraph 26 of its Preamble. Under Article 8(1) of the Regulation the law applicable to a non-contractual obligation arising from an infringement of an IP right shall be the law of the country for which protection is claimed. That rule in the terms of the Rome II Regulation does not represent a novelty with respect to previous practice in the Member States⁷⁵. The wording of this provision makes clear that it does not necessarily lead to the application of the *lex fori*, inasmuch as courts of member States may be competent to adjudicate infringements of foreign IP rights. Given the territorial and independent nature of national IP systems, the choice of law rule has a distributive nature. Different laws shall apply if protection is sought for the territory of several states except when a supranational unitary IP right is involved, as it is the case with Community IP rights.

The Preliminary Draft Proposal released by the Commission at the time it launched consultations on 3 May 2002 had no specific rules for infringements of IP rights. Such an approach was severely criticized. The Commission in its Proposal for a Regulation of 2003 laid down a special rule that provides for the application of the law of the country for which protection is claimed. The rationale behind the inclusion of a specialized choice of law rule for IP rights is that the general rules of the Regulation are not compatible with the needs of non-contractual obligations arising from the infringement of those territorially restricted rights⁷⁶ and also the idea that a significant consensus exists in the international sphere in favour of the *lex loci protectionis*. The relevant connections under the Regulation in absence of specific provisions are freedom of choice (Article

⁷⁴ However, application of the Directive to those situations may raise certain doubts given that the EU competence to harmonize national legislations under Article 95 EC Treaty is limited to adopt measures which have as their object the establishment and functioning of the internal market.

⁷⁵ *Buchner*, Rom II und das Internationale Immaterialgüter- und Wettbewerbsrecht, GRURInt, 2005, 1004, at 1005.

⁷⁶ *Drexler*, (*supra*, note 53) 155.

14), the common habitual residence of the parties (Article 4.2), the place where the damage occurs (Article 4.1) and the closest connection (Article 4.3). Application of the law of the common habitual residence to infringements of IP rights is considered to be contrary to the territorial nature of IP rights that also excludes general and unrestricted application of freedom of choice. Additionally, the rule based on the closest connection is drafted as an exception that can be of special use to establish an accessory connection to the law applicable to a pre-existing relationship between the parties, such as a contract, an option that would also typically be incompatible with the territorial nature of IP rights. Further, in the light of the existing laws of the Member States, having recourse to the *lex loci protectionis* rule is a much better option in order to achieve certainty and uniformity than relying on the place of the damage⁷⁷.

Since the *lex loci protectionis* rule is based on the fact that one of the essential characteristics of IP rights is their limited territorial scope of protection, the traditional view is that the rule does not permit any exceptions. The mandatory nature of the rule implies that all issues falling within the scope of the choice of law rules on IP rights are excluded from party autonomy⁷⁸. Article 8(3) reflects the well-established view in most EU Member States that territoriality of IP rights is linked to the mandatory application of the *lex loci protectionis*. That approach is based on the traditional view stressing the links between strict territoriality, the economic system of each country and the absolute prevalence of state interests in that field⁷⁹.

18. Given the connection of the *lex loci protectionis* rule to the nature of IP rights, from a comparative perspective the prevailing view is that the choice of law rule extends to all questions relating to the existence, validity and protection of IP rights⁸⁰. The scope of application of Regulation 864/2007 and in particular of Article 8 is limited to the non contractual obligations arising from an infringement of an IP right (Articles 1 and 8). The introduction of the *lex loci protectionis* in the Regulation leads to the application of the same rule that usually applies to the IP right itself in national systems. However, the Regulation is not intended to cover all issues concerning IP rights. Article 8 comprises only some of the issues

⁷⁷ Obergfell, (*supra*, note 52), at 12; and. Pertegás Sender, (*supra*, note 40), 168-169.

⁷⁸ Kreuzer, La comunitarizzazione del diritto internazionale privato in materia di obbligazioni extracontrattuali (Roma II), Picone (ed.), *Diritto internazionale privato e diritto comunitario* (2004), 421, 436; and Buchner (*supra*, note 75), at 1008.

⁷⁹ Troller, (*supra*, note 47), 1130; Sandroock, (*supra*, note 37), 512 ff; Vischer, *Das internationale Privatrecht des Immaterialgüterrechts nach dem schweizerischen IPR-Gesetzentwurf*, GRURInt, 1987, 670, 676.

⁸⁰ MünchKommBGB(2006)/Drexler, IntImmGR, RdNr 177 ff.

typically addressed by choice of law rules on IP rights in certain national legislations, such as Article 34(1) Austrian PIL Act, Article 10(4) Spanish Civil Code⁸¹, Article 110(1) Swiss PIL Act, Article 54 Italian PIL Act, and Article 93 Belgian PIL Act. Choice of law concerning issues such as initial ownership, registration, existence, validity, content, duration or transferability and effects against third parties of IP rights are not in principle covered by the unified rules. Those questions remain typically outside the scope of the Regulation.

That conclusion is especially important for initial ownership because of the marked differences that exist between Member States. Whereas most countries do not have special rules and apply the *lex loci protectionis* also to original ownership, other countries have developed special choice of law rules on that issue. The idea that the Rome II Regulation does not cover the law applicable to initial ownership could be questioned given that Article 15 confers a very wide function on the law designated under the Regulation and initial ownership may be decisive to establish who has the right to bring a suit for infringement. Under Article 15 the law applicable shall govern in particular: “the basis and extent of liability, including the determination of persons who may be held liable for acts performed by them” –Art. 15(a)- and “persons entitled to compensation for damage sustained personally” –Art. 15(f)-⁸². However, considering the general system, scope and objectives of the Regulation, the better view seems that Article 8 has not unified choice of law rules on initial ownership of IP rights. The issue of what acts constitute infringement of IP rights is closely linked to the question of the existence, scope and duration of the rights and hence partial unification of choice of law issues on IP leads to fragmentation and favours legal uncertainty, as compared to those systems in which the same choice of law rule determines the law applicable to all issues governed by the *lex loci protectionis*. At any rate, in the current state of the law an EU wide uniform rule on the law applicable to authorship seems difficult to achieve. It seems advisable to further develop consensus on that issue before adopting a unified rule at Community level⁸³. Therefore, Member States remain free to have their own choice of laws rules on original entitlement,

⁸¹ Michinel Álvarez, La regulación del derecho de autor internacional en España ante el proyecto de Reglamento sobre ley aplicable a las obligaciones extracontractuales, *ADI*, 2006-2007, 275, 293; and López-Tarruella Martínez, La ley aplicable a la propiedad industrial e intelectual en la Propuesta de Reglamento Roma II, *Gaceta Jurídica de la UE*, num. 235, 2005, 23, 37.

⁸² Uncertainties remain especially about the delimitation between *lex loci protectionis* and *lex fori* in infringement litigation, see Pertegás Sender, (*supra*, note 40), 170.

⁸³ De Miguel Asensio, La *lex loci protectionis* tras el Reglamento Roma II, *AEDIPr* (2007), at III.

such as Article 93(2) Belgian PIL Act and Article 72 Bulgarian PIL Act. The limited scope of the Regulation is reaffirmed in light of the Bulgarian PIL Act of 2005. Since Article 110 establishes a rule on the law applicable to obligations arising from an infringement of an IP right following the model of Article 8 Rome II, the Bulgarian Act regulates the law applicable in general to IP rights (initial title, existence, content, transferability and duration) in a different provision, which is also based on the *lex loci protectionis* principle (arts. 71 and 74).

2. Acts of unfair competition

19. The Rome II Regulation contains a specific provision on unfair competition based on the so-called market effects principle. In most national PIL systems in Europe the market effects principle was already well-established⁸⁴ at the time of the drafting of the Regulation and also the ECJ case-law had followed a similar approach to determine the territorial scope of application of the rules on competition of the EC Treaty⁸⁵. Although special treatment for unfair competition was already provided for in the Preliminary Draft and the Proposal presented by the Commission in 2002 and 2003, its final inclusion in the text was controversial. Among the amendments proposed by the European Parliament in 2005 to the Proposal was the suppression of the rule on unfair competition⁸⁶. The reasons invoked by the Parliament to delete that rule were that unfair competition could be dealt with under the general provisions of the Regulation and the absence of clarity as to what is covered by “acts of unfair competition”. The criticism that the inclusion of that rule caused uncertainty as to what acts would be covered given the lack of a European definition of unfair practices⁸⁷ was mainly raised by British scholars and it is related to the fact that unfair competition law as a systematic field of the law has traditionally been alien to the British legal system and therefore special difficulties of characterization were

⁸⁴ *Duintjer Tebbens*, Les conflits de lois en matière de publicité déloyale à l'épreuve du droit communautaire”, *Rev.cr.dr.int.pr.*, 1994, 451, at 455 ff.

⁸⁵ ECJ 27 September 1988, case 89/85, *Ahlström*.

⁸⁶ See the Position of the European Parliament adopted at first reading on 6 July 2005, P6_TA(2005)0284.

⁸⁷ *Dickinson*, Cross-Border Torts in EC Courts - A Response to the Proposed Rome II Regulation, *EBLR*, 2002, pp. 369-388, at 376; and UNICE, Comments to the Preliminary draft proposal for a Council Regulation on the law applicable to non-contractual obligations (Rome II Regulation), 7 October 2002, http://ec.europa.eu/justice_home/news/consulting_public/rome_ii/unice_en.pdf, p. 7.

expected⁸⁸. The Regulation does not provide a definition of unfair competition, but the rule covers a very broad subject matter including unfair advertising. The most significant reference to the meaning of that concept can be found in the Explanatory Memorandum of the 2003 Proposal, that explains that unfair competition rules, among other things, “outlaw acts calculated to influence demand (misleading advertising, forced sales, etc.), acts that impede competing supplies (disruption of deliveries by competitors, enticing away a competitor's staff, boycotts), and acts that exploit a competitor's value (passing off and the like)”⁸⁹. Moreover, the Directive on Unfair Commercial Practices of 2005 has also been a very significant achievement approximating national legislations in that field.

Additionally, some authors reacted against the Proposal made by the Commission because they considered that there was no need to include specific provisions on unfair competition given that the market effects principle leads in practice to the same result than the general rule of the place in which the damage occurs⁹⁰. However, the problems of interpretation of that general rule to some marketing activities, the specific policies underlying unfair competition law and the interests involved in cross-border unfair competition disputes seem to justify the adoption of specific choice of law provisions, such as Article 6 of Regulation 864/2007.

20. Under Article 6(1) the law applicable to a non-contractual obligation arising out of an act of unfair competition shall be the law of the country where competitive relations or the collective interests of consumers are, or are likely to be, affected. Although the text does not use the word market, that provision leads basically to the application of the country whose market is affected⁹¹. Reference to the collective interests of consumers reflects the importance of protecting such interesting in the social or institutional model of unfair competition prevailing in the EU. The traditional criterion of the affected market is in line with the foundations of the conflict of law rule and the policies underlying this field of the law, since Recital number 21 stresses that the rule is aimed at protecting competitors, consumers and the general public and ensuring that the market economy functions properly. Recital 21 states also that the

⁸⁸ Carruthers/Crawford, Variations on a Theme of Rome II. Reflections on Proposed Choice of Law Rules for Non-Contractual Obligations. Part II”, *EdinLR*, 2004-2005, 238, at 256.

⁸⁹ COM (2003) 427 final, at 15.

⁹⁰ Nourissat/Treppoz, Quelques observations sur l'avant-projet de proposition de règlement du Conseil sur la loi applicable aux obligations non contractuelles (Rome II), *Journ.dr.int.*, 2003, 7, at 30.

⁹¹ Honorati (*supra*, note 69), at 149-150.

special rule in Article 6 –covering unfair competition and acts restricting free competition- is not an exception to the general rule in Article 4(1) but rather a clarification of it. For some, Article 6(1) should not be considered as a special rule but as a mere application of the general rule to the particularities raised by unfair commercial practices⁹². The Regulation supports the view that the general connecting factor of the place in which the damage occurs could also lead to the place of the affected market when applied to acts of unfair competition, since the damage should be located where the relations among competitors or the decisions of consumers are affected. Such interpretation of the *lex loci delicti* rule was common in Members States not having a specific choice of law rule for torts of unfair competition, including English courts⁹³.

The specific choice of law rule on unfair competition establishes a criterion that is more precise and easier to apply to commercial activities than the *lex loci delicti* rule. Firstly, uncertainty results from the dichotomy between the place where the harmful act took place and the place where the damage occurs that modern means of communication tend to intensify, as illustrated by the previous practice in countries not having a specific choice of law provision based on the market effects principle⁹⁴. Secondly, even assuming, as stated now in Article 3 of the Rome II Regulation, that the *lex loci delicti* should be understood as the place in which the damage occurs, uncertainty would remain, since the place of the impact in certain competition related torts may be difficult to assess. Additionally the specific provision of Article 6 makes more transparent the policies underlying the rule that decisively affect its interpretation, considering that the main policy is the protection of competitive relations and of consumer’s collective interests rather than the protection of the competitor’s individual interest. Therefore this provision favours an interpretation of the market effect principle based on objective criteria to determine where market relations are affected. Such an understanding of the conflict rule leads usually to a common approach with choice of law rules in antitrust law and with the *lex loci protectionis* for IP protection⁹⁵. Finally, special treatment for unfair competition claims is also necessary to exclude the application of party autonomy and also the rule on the common habitual residence. The mandatory nature of the special rule is consistent with the function of unfair competition law. Under Article 6(4), the law applicable to unfair competition practices may not be derogated from by an agreement pursuant to Article 14. The role of unfair

⁹² Brière, “Le règlement (CE) n° 864/2007 du 11 juillet 2007 sur la loi applicable aux obligations non contractuelles (Rome II)”, *Journ.dr.int.*, vol. 135, 2008, 31 at 43.

⁹³ *Fawcett/Torremans*, IP and Private International Law (1998), at 203, 684-687.

⁹⁴ *Dyer* (*supra*, note 62) at 415-423; and *Dethloff* (*supra*, note 71) 59.

⁹⁵ *Koos* (*supra*, note 64), at 77.

competition law as a field of the law intended to regulate the market is connected to the view that its application to acts that produce substantial effects in the market cannot depend on the wishes of the parties. This interpretation is considered essential in order to guarantee the equality of market conditions and non-discrimination between competitors as well as the adequate protection of consumer interests⁹⁶.

21. The market effects principle leads under Article 6(1) to the simultaneous application of a plurality of laws to multi-state activities. During the debates on the Rome II Regulation a proposal was made to complement the general rule on the law applicable to unfair competition with a specific rule on the law applicable to intra-community unfair advertising. Under such proposal unfair advertising exclusively connected with one or more Member States of the EU would be governed by the law of the Member State where the advertising company has its principal place of business⁹⁷. A rule like that could raise some problems. For instance, it could lead to confusion as to the determination of the place of origin, since it refers to the country of establishment of the advertiser, but under EC law the relevant place of origin may be that of the media, as it is the case in the TV broadcasting Directive. A specific choice of law rule for intra-Community situations would be a source of uncertainty and complexity⁹⁸. Fragmentation of choice of law rules between one set of rules specific for internal market situations and other rules applicable to cases involving third states does not seem the best option to eliminate obstacles to the functioning of the internal market⁹⁹. The limited scope of harmonization reached so far in the field of unfair competition can be decisive to appreciate that the introduction of a conflict rule based on the application of the law of origin would not be an efficient way to solve choice of law issues raised by intra-community advertising in general. Given the current scope of harmonization overall removal of the possibility to justify

⁹⁶ *Imhoff-Scheier*, La loi applicable a la publicité internationale en droit international privé suisse”, *ASDI*, 1985, 57, at 73-74; MünchKomm(1998) – Kreuzer Art 38 RdNr 249; *Virgós Soriano* (*supra*, note 66), at 137-138 MünchKommBGB(2006)/*Drexl*, IntUnlWettbR, RdNr, 99; *Wagner*, Die neue Rom II-Verordnung, *IPRax*, 2008, 1, at 8.

⁹⁷ *Hamburg Group for Private International Law* (*supra*, note 45) at 19-20.

⁹⁸ *Leible*, Der Beitrag der Rom II-Verordnung zu einer Kodifikation der allgemeinen Grundsätze des Europäischen Kollisionsrechts, in: Reichelt (ed.), *Europäisches Gemeinschaftsrecht und IPR*, (2007), 31, at 47-48.

⁹⁹ Stressing that the uniform rules of jurisdiction contained in the Brussels Convention are not intended to apply only to situations in which there is a real and sufficient link with the working of the internal market, see ECJ 1 March 2005, case C-281/02, *Owusu*, para 34; ECJ Opinion 7 February 2006, Opinion 1/03, para 143; and, as regards harmonisation directives based on Article 95 EC, ECJ 20 May 2003, Joined Cases C-465/00, C-138/01 and C-139/01 *Österreichischer Rundfunk*, paras 41 and 42

restrictions to the internal market principle under the laws of destination for intra-community advertising in general seems excessive. Regulation 864/2007 has finally not introduced a provision enshrining the so-called principle of origin, in tune with the outcome in the Directive on unfair commercial practices and the Directive relating to services in the internal market, as it will be discussed later.

A provision making possible the application of a single country in certain cases, such as the one contained in Article 6(3) with respect to restrictions of competition, is lacking for unfair commercial practices. As an exception to the mosaic criterion, Article 6(3)(b) establishes the possibility for a single law to govern the non-contractual obligations arising out of multi-state restrictions of competition. This provision is intended to avoid costs and difficulties linked to the application of foreign laws and it is compatible with the criteria established in the *Shevill* judgment of the ECJ¹⁰⁰. The *Shevill* case-law extends the mosaic principle to jurisdiction based on the place where the damage happened, promoting coincidence between jurisdiction and applicable law. However, the jurisdiction of the courts of the defendant’s domicile covers disputes concerning the harm caused worldwide. Article 6(3)(b) intends to ensure coincidence between jurisdiction and applicable law in those cases, preventing the application of the mosaic criterion. Such an approach has been welcomed as a development that guarantees less complicated or costly procedures and a more effective adjudication of civil disputes arising out of multi-state restrictions of competition. However, it has been criticized that the possibility to adjudicate multi-state claims under a single law (the law of the forum) is limited in Article 6(3)(b) to claims resulting from restrictions of competition, although multi-state claims raise similar difficulties in the field of unfair competition law. In this connection application by analogy of the rule established in Article 6(3)(b) to situations covered by Article 6(1) has been proposed¹⁰¹.

22. According to Article 6(2) Rome II Regulation, where an act of unfair competition affects exclusively the interests of a specific competitor, Article 4 shall apply. Therefore, in the cases covered by this rule the market effects principle is replaced by the general rules of Article 4, so that the law applicable shall be that of the common habitual residence of the parties, and in case there is no such common residence, the law of the country in which the damage occurs, except when the tort is manifestly

¹⁰⁰ Leible/Lehmann, Die neue EG-Verordnung über das auf außervertragliche Schuldverhältnisse anzuwendende Recht (Rom II), *RIW* (2007) 721, 730; Rodríguez Pineau, La ley aplicable a la responsabilidad derivada de actos contrarios a la libre competencia, *AEDIPr* (2007), para. 15.

¹⁰¹ Wagner (*supra*, note 96), at 8.

more closely connected with other country. This last possibility may be especially useful due to the uncertainty as to the dividing line between contractual obligations and certain unfair competition acts (for instance, in respect of secret information) arising in the framework of a contract or contractual negotiations¹⁰². In situations in which the parties have a contractual relationship which is linked to the alleged unfair competition act, the exception of Article 4(3) can lead to the application of the law of the contract to the unfair competition claim.

Article 6 paragraph 2 refers to situations where an act of unfair competition affects exclusively the interests of a specific competitor. Usually the main consequence will be an economic loss produced at the domicile of the victim, and hence the reference to Article 4 seems appropriate¹⁰³. The rationale behind Article 6(2) is that in those acts the object of the unfair practice is neither the market nor competition as such and that the practice mainly influences relations between both parties and the particular position of the victim in the market¹⁰⁴. This approach is in line with similar rules previously applied in some European countries, such as Article 136(2) Swiss PIL Act and Section 4(2) Dutch Act of 2001¹⁰⁵, and it was also the approach taken before by the courts of certain Member States, particularly the German courts.

Controversial in the application of Article 6(2) is the determination of what acts fall within its scope. The application of such provision depends on how the expression “affects exclusively the interests of a specific competitor” is interpreted. The Explanatory Memorandum of the 2003 Proposal refers to acts that target a specific competitor and that have to be regarded as bilateral even if it may not be excluded that such conduct may also have a negative impact on a given market. Examples of those acts are the case of enticing away a competitor's staff, corruption, industrial espionage, disclosure of business secrets or inducing breach of contract. The subject matter of Article 6(2) should be interpreted restrictively considering its wording (“affects exclusively”) and given that it is an exception to the general choice of law rule in matters of unfair competition. For the application of paragraph 2 is not enough that the

¹⁰² *Font Segura*, La protección internacional del secreto empresarial (1999), p. 311.

¹⁰³ *Leible/Lehmann*(*supra*, note 100), at 729.

¹⁰⁴ Special treatment for so-called bilateral acts of unfair competition has been criticized on the grounds that it was developed as a unilateral mechanism to favour application of forum law, that it leads to the application of a personal connecting factor (common domicile of the parties) what is regarded as inappropriate with respect to competition claims, and that its scope of application is uncertain, see A. Troller, (*supra*, note 67), at 15-16; and *Honorati* (*supra*, note 69), at 154-158.

¹⁰⁵ *Kadner Graziano*, Das niederländische zum Kollisionsrecht der unerlaubten Handlung, IPRax, 2004, 137, at 143.

impact of the relevant practice on the interests of competitors are more intense than the impact on consumers' interests. Therefore, paragraph 2 should only be applied to acts of unfair competition which are targeted directly at the operational interests of a single competitor and that are fulfilled directly in the bilateral relationship between both parties. Even though some doubts have been raised about the characterization of slavish imitations which do not involve a clear misrepresentation for consumers as acts that affect exclusively the interests of a specific competitor, such view shall not stand up. Slavish imitations typically have an impact on the customer or consumer side of the market and therefore, in line with the prevailing situation in the Member States before the adoption of the Rome II Regulation, they should be included in the “general” rule of Article 6(1) ensuring that the same conditions apply to all competitors in the market¹⁰⁶. This interpretation favours the application of similar choice of law principles to imitation claims irrespective of if they are based on the infringement of IP rights or result from unfair competition law.

3. Delimitation and comparison

23. The overlap of some areas of IP and of the law against unfair competition and some similarities between territoriality of IP rights and the scope of policies underlying unfair competition are elements that may favour recourse to similar connecting factors in both fields in order to avoid unsatisfactory results. In both areas, although with considerable differences, the rules have a typically territorial reach for which a statutory approach has been very influential¹⁰⁷. Given the territoriality of IP rights and the fact that unfair competition liability is typically founded on statutes intended to be territorial it has achieved significant acceptance the view that these two fields of the law deserve specific choice of law treatment as compared to other torts. This approach is reinforced by the evolution of the function assigned to unfair competition in the currently prevailing institutional model, due to the fact that, although with significant divergences in their structure and goals, unfair competition, IP and antitrust law are all fields of the law aimed at ensuring the competitive functioning of the market.

Because IP rights and unfair competition law at least to certain extent complement each other, sometimes the PIL system may lead to the cumulative application of choice of law rules on the protection of IP and on unfair competition¹⁰⁸. Recourse to similar choice of law rules enhances

¹⁰⁶ *Leistner*, (*supra*, note 3), at 143-153, with further references.

¹⁰⁷ *Sandrock*, (*supra*, note 37), 514-515 and 520-521.

¹⁰⁸ *Virgós Soriano* (*supra*, note 66), at 26-27.

legal certainty and decisional harmony. Otherwise national divergences as to the delimitation between both fields may raise difficult characterization issues.

Because of the close connection between IP and unfair competition and the lack of an autonomous concept of unfair competition the risk of uncertainty when characterising the issues raised in a claim seems especially important¹⁰⁹. A common interpretation throughout the UE as to what situations are covered by Articles 6 and 8 is required in order to achieve uniformity in their interpretation. Characterization of uniform choice of law rules is to be decided based on autonomous categories, derived to a great extent from the comparative research of the legal systems of Member States. With respect to Article 6(1) especial influence should have the 2005 Directive on unfair commercial practices¹¹⁰. Under Article 2(d) commercial practices are defined as meaning “any act, omission, course of conduct or representation, commercial communication including advertising and marketing, by a trader, directly connected with the promotion, sale or supply of a product to consumers”. This concept is not broad enough to encompass all activities covered by Article 6(1) Rome II Regulation because the Directive is restricted to business to consumer activities and that decisively affects the definition contained in Article 2(d)¹¹¹.

Characterisation in private international law is normally a matter for the forum, leading in this case to a EU uniform interpretation. However, given the nature of the rights and prohibitions involved and, as noted earlier, the differences existing from the comparative perspective in the delimitation between IP rights and unfair competition it can be considered that characterization on that particular point may be influenced by the allegedly applicable law. Because of the close connection of IP rights with the country for whose territory the right is granted it seems advisable that the characterization adopted by that law of a certain factual situation as infringement of an IP right should be respected everywhere. Under such an approach there would be no need for the court to fall back on the law of the forum¹¹² (a EU wide interpretation). At any rate, the foregoing reflects a situation in which convergence between

¹⁰⁹ Carruthers/Crawford, (*supra*, note 88), at 254.

¹¹⁰ Handig, Neues im internationalen Wettbewerbsrecht – Auswirkungen der Rom II-Verordnung, GRURInt, 2008, 24, 26.

¹¹¹ Henning-Bodewig, Die Richtlinie 2005/29/EG über unlautere Geschäftspraktiken, GRUR Int, 2005, 629, at 630-631; and Mankowski, Was soll der Anknüpfungsgegenstand des (europäischen) Internationalen Wettbewerbsrechts sein?, GRUR Int, 2005, 634, at 636.

¹¹² Robertson, Characterization in the Conflict of Laws, (1940), at 75-76.

the connecting factors used in the fields of IP and unfair competition seems to be an important source of legal certainty.

24. In practice, the conflict rules established in Articles 6(1) and 8(1) Rome II Regulation lead to very similar results especially in cases in which both fields converge such as in the protection of signs against imitations¹¹³. For instance, with respect to infringements of IP rights, the country for which protection is claimed normally coincides with the place where the market is affected because the infringing activities influence the opportunities to exploit the rights by the owner¹¹⁴. Both rules are considered mandatory and not subject to any exceptions. Additionally the scope of the law applicable to non contractual obligations arising out of an unfair commercial practice or an IP infringement extend typically to all issues covered by choice of law rules on civil liability¹¹⁵, such as the determination of the existence and extent of liability and who may be held liable, the existence of damage and the remedies available (Article 15). Furthermore, both Article 6(1) and 8 (1) are drafted in terms that make clear that they cover the possibility of *ex ante* injunctions in tune also with the wording of Article 5(3) Regulation 44/2001.

At any rate, differences can be found. Because the means used by IP -exclusive rights- and unfair competition -rules of conduct- differ, the conflict rules of both fields should remain separated. For instance, under Article 6 merely preparatory activities in a country do not lead to the application of its unfair competition rules if the acts do not affect that market¹¹⁶. By contrast, preparatory activities concerning products intended for foreign countries that take place in the country of protection shall typically infringe the exclusive IP rights of that country¹¹⁷. Additionally, deviation from the market effects rule leads to divergences with protection based on territoriality. In this connection Articles 6(2) determines the law applicable to the disclosure of secret technology (that may be patentable subject matter) based on a different approach as compared to territorial protection of technology by means of patents. However, beyond the protection of secret information, Art. 6(2) applies only to a limited number of practices that usually are not connected to IP rights, such as enticing away a competitor's staff or inducing breach of contract.

¹¹³ MünchKommBGB(2006)/Drexl, IntUnlWettbR, RdNr, 110.

¹¹⁴ van Eechoud, (*supra*, note 58), at 4.

¹¹⁵ MünchKommBGB(2006)/Drexl, IntUnlWettbR, RdNr, 101 ff.

¹¹⁶ Leistner, Comments The Rome II Regulation Proposal and its Relation to the European Country-of-Origin Principle, Drexl/Kur (eds.), (*supra*, note 19) 176, 183. See, also, Brömmelmeyer (*supra*, note 63), 117-118.

¹¹⁷ Virgós Soriano (*supra*, note 66), at 62.

V. Internal market and mutual recognition as sources of divergence

1. Protection of national IP rights, harmonization and creation of Community rights

25. The existence of national IP rights raises specific difficulties to the functioning of the internal market. National IP rights enabling holders to ban the marketing by others of products covered by their exclusive rights may conflict with the free movement of goods and services. Article 30 EC Treaty affirms the view that national IP rights may be a legitimate barrier to intra-community trade. The ECJ has established that existence of those rights and the situations which form part of the specific object of IP rights cannot be incompatible with the free movement of goods. By contrast, more extensive rights recognised by national laws such as the right to object to the importation of goods which have been marketed in another Member State by or with the consent of the IP right holder are not acceptable under Article 30 EC Treaty since under those circumstances the IP rights are considered to be exhausted at Community level. Harmonization of national laws on IP rights by means of Directives and the case-law of the ECJ as to the limits to the exercise of national IP rights contribute to reducing the distortions resulting from the multiplicity of national exclusive rights¹¹⁸, but do not lead to the application of a unitary regime to those rights. The directives in this area do not challenge the territorial nature of IP rights nor its spatial scope limited to the territory of one Member State.

IP law, especially trademark law and copyright law, is among the areas of private law in which harmonization has been more intense in the EU. Harmonization of IP law has focused on reducing disparities among Members States with respect to the protectable subject matter, the scope of the rights conferred and their enforcement. However, increasing approximation of laws has not lead to the adoption of a choice of law rule establishing the application of a single law to cross-border intra-community activities. Leaving aside the exception of Directive 93/83/EC on satellite broadcasting, recourse to the country of origin principle within the internal market has not even been considered in the field of IP rights, contrary to the situation in the area of unfair competition. That situation seems to be a consequence of the territoriality of IP rights.

¹¹⁸ *Wichard*, “Europäisches Markenrecht zwischen Territorialität und Binnenmarkt”, *ZEuP*, 2002, 23, at 28.

26. In the case of Community IP rights the territory of protection extends to the whole Community, although they coexist with national rights. As an alternative to mere harmonization, the creation of community IP rights which have a unitary character –such as Regulation 40/94 on the Community Trademark and Regulation 6/2002 on the Community Design- leads to the disappearance of conflicts of laws within the EU with respect to such rights, except in those aspects not covered by the uniform rules. Hence, although specific conflicts arise concerning the need to supplement EC law as the *lex loci protectionis*, the creation of unitary community rights reduces or avoids significant legal risks otherwise linked to multi-state commercial activities.

From a European perspective, this situation contrasts with the present state of affairs in the area of copyright and unfair competition (as well in the case of the national industrial property rights) inasmuch as the mere adoption of the harmonization directives does not cause a similar impact on choice of law issues. Although the creation of unregistered Community design protection can be regarded as a precedent, the possible creation of unitary Community copyrights have not yet been seriously considered by the Community institutions¹¹⁹. Finally, the creation of unitary rights represents a radical transformation within the EU, but the idea of worldwide IP rights based on an international unification does not seem realistic at all, especially for registered rights, when considering the diversity between national legal systems and economic and social orders and how those differences influence registration and scope of IP rights. In addition, such a development could also prove undesirable at world level, since the creation of worldwide exclusive rights –for instance, on signs- would lead in normal cases to an excessive monopoly due to its worldwide effect¹²⁰.

2. Significance of the country of origin principle

a) Country of origin vs. affected market

27. Mutual recognition and the so-called principle of origin have played a significant role in the Directives harmonizing unfair competition and advertising. Additionally certain provisions of primary Community law may prohibit the application to intra-community activities of restrictions established by the national law applicable under the general

¹¹⁹ *Leistner (supra, note 116)*, at 199.

¹²⁰ *Ohly, Kennzeichenkonflikte im Internet, Leible (ed.), Die Bedeutung des Internationalen Privatrechts im Zeitalter der neuen Medien (2003)*, 135, at 139-141.

conflict of laws rules, provided that those restrictions can not be justified under Articles 30 and 46 EC Treaty nor under the *Cassis de Dijon* doctrine.

Advertising restrictions and unfair competition rules enacted by Member States have traditionally been subject to strict scrutiny under Community Law. Those provisions may be trading rules capable of hindering intra-Community trade and in application of the *Dassonville* doctrine can be regarded as measures having an effect equivalent to quantitative restrictions¹²¹, which are prohibited under Article 28 and 49 EC Treaty unless covered by the exceptions established in Article 30 EC Treaty -with a reference to IP rights- or the mandatory requirements admitted under the *Cassis de Dijon* doctrine, that includes as justifications the interests of consumer protection and the prevention of unfair commercial practices. Those justifications may also be relevant under Article 49, 55 and 46 EC Treaty in situations in which national prohibitions restricting intra-community cross-border advertising are considered as restrictions on the freedom to provide services¹²². Application of national restrictions is only admissible in the terms established in the relevant Directive within the fields which have been fully harmonised.

A significant evolution of the ECJ case-law was marked by the controversial *Keck* judgment¹²³ that established that national rules restricting or prohibiting certain selling arrangements shall not be considered as measures having equivalent effect so long as those provisions apply to all relevant traders operating within the national territory and so long as they affect in the same manner the marketing of domestic products and of those from other Member States. National provisions falling outside the prohibition of Article 28 EC Treaty as interpreted by the *Keck* doctrine are mainly measures on the promotion of products that apply after the entrance of the products in the national market, including certain advertising restrictions¹²⁴. However, national provisions that impose very broad advertising prohibitions do not meet

¹²¹ ECJ 15 December 1982, *Oosthoek*, case 286/81; 16 May 1989, *Buet*, case 382/87; 7 March 1990, *GB-INNO-BM*, case C-362/88; 18 March 1993, *Yves Rocher*, case C-126/91; and 25 July 1991, *Aragonesa*, case C-1/90 y C-176/90.

¹²² ECJ 26 April 1988, *Bond van Adverteerders*, case 352/85, para. 36; 25 July 1991, *Säger*, case C-76/90; 25 July 1991, *Collectieve Antennevoorziening Gouda*, case C-288/89, paras. 15, 40-42; 10 May 1995, *Alpine Investments*, case C-384/93; 9 July 1997, *De Agostini y TV-Shop*, case C-34/95, para. 53; 28 October 1999, *ARD*, case C-6/98, para. 50; 8 March 2001, *Gourmet International Products*, case C-405/98, paras. 40-42; 23 October 2003, *RTL Televisión*, case C-245/01, para 71; and 13 July 2004, *Comisión c. Francia*, as. C-262/02, para. 30.

¹²³ ECJ 24 November 1993, *Keck et Mithouard*, case C-267/91 and C-268/91.

¹²⁴ ECJ 15 December 1993, *Hünernmund*, case C-292/92, paras. 19-23; ECJ 9 February 1995, *Leclerc-Siplec*, case C-412/93; 29 June 1995, *Comisión c. Grecia*; case C-391/92; and 28 October 1999, *ARD*, case C-6/98, paras. 45-46.

the conditions required under *Keck*¹²⁵ and hence may qualify as measures having equivalent effect¹²⁶. Also, if the advertising restriction bears on the actual content of the products it may hinder trade between Member States inasmuch as the prohibition impairs access of the product to the market¹²⁷.

28. The market effects principle leads to the cumulative application of different laws to the same marketing activity if it spreads across various countries. Each one of those laws is applicable with respect to the corresponding market. The country of destination principle obliges advertisers to comply with advertising and competition law rules of every country where there activities may produce effects or at least with the strictest rules of all the countries involved¹²⁸. That situation may be a serious burden, which has led to consider the possibility of a single location as an alternative. This possibility has become especially significant as a consequence of the expansion of media which facilitates the diffusion of marketing activities on a world scale as well as in relation to requirements resulting from the internal market. A single location in the country of origin favours legal certainty and predictability in the determination of the applicable law as compared to the market effects principle. It also avoids the restrictive consequences for marketing activities resulting from the cumulative application of multiple national laws. The market effect principle as a choice of law rule is in open contradiction with the origin principle¹²⁹. However, like Article 6(1) of the Rome II Regulation, the country of origin principle in the European context is relevant mainly with regard to unfair competition and especially intra-community advertising¹³⁰. Therefore, the principle leads to a fragmentation of the system and to different solutions for intra-community and extra-community situations.

¹²⁵ *Weatherill*, Recent Case Law Concerning the Free Movement of Goods: Mapping the Frontiers of Market Deregulation, *CML Rev.*, 1999, 51, at 56 ff.; *Heermann*, Artikel 30 EGV im Lichte der Keck Rechtsprechung: Anerkennung sonstiger Verkaufsmodalitäten und Einführung eines einheitlichen Rechtfertigungstatbestands?, *GRUR Int*, 1999, 579, at 581ff; *Koutrakos*, On Groceries, Alcohol and Olive Oil: more on Free Movement of Goods after Keck, *ELRev.*, 2001, 391, 398; *Oliver/Roth*, The Internal Market and the Four Freedoms, *CMLRev*, 2004, 407, at 415-416.

¹²⁶ ECJ 8 March 2001, case C-405/98, *Gourmet International Products*; and 15 July 2004, *Douwe Egberts*, case C-239/02, para. 53.

¹²⁷ ECJ 6 July 1995, *Mars*, case C-407/93 and ECJ 26 June 1997, *Familiapress*, case C-368/95.

¹²⁸ See *Howells/Micklitz/Wilhelmsson/Micklitz*, (*supra*, note 3), at 30.

¹²⁹ *Deinert*, Das Herkunftslandprinzip und seine Bedeutung für das Internationale Deliktsrecht, *EWS*, 2006, 445, at 451.

¹³⁰ *Piekenbrock*, Die Bedeutung des Herkunftslandprinzips im europäischen Wettbewerbsrecht, *GRURInt*, 2005, 997, at 998; and *Leistner* (*supra*, note 116), at 179.

The market effects rule is a consequence of the nature and function of unfair competition law. The evolution in favour of the country of origin principle only seems possible to the degree that there is a level of legal uniformity between the countries involved that provides destination countries with the guarantee that the application of the law of origin conforms to minimum common standards of consumer protection and fair trading¹³¹. The rationale behind the trend to favour the country of origin principle for commercial activities carried out through the Internet applies not only within the EU but also at world level. The origin principle makes it possible to conduct commercial activities in many countries without having to assess the compliance with the rules on unfair commercial practices of all those countries. Therefore the principle of origin as a rule fostering cross-border commercial activities through the Internet, favouring the position of businesses seems undisputed. However, a world-wide application of the country of origin principle to unfair commercial practices seems completely unrealistic when considered the current lack of international harmonisation in this field and hence the room left for opportunistic conducts concerning establishment (and choice of law) by companies and also the risk of lowering the standards of protection (race to the bottom)¹³².

Similar choice of law difficulties arise in the field of IP because the *lex loci protectionis* leads also to a mosaic approach. Reasons given to support the introduction of the country of origin rule in the field of unfair competition have also been invoked in favour of an internal market rule concerning the scope of IP rights of Member States, that would allow traders to rely on the law of their home country to determine the exact scope of an IP right for intra-community trade in a field in which significant harmonization has also been achieved. Therefore, although some drawbacks have been identified, such as the resulting fragmentation of the choice of law rules concerning registration and scope of protection, and that the circumstances in the market of protection (or destination) – consumer habits, language...- may be relevant to decide on infringement, the claim that a country-of-origin principle in IP should also be considered within the EU has been raised¹³³. In fact, inasmuch as the country of origin principle –contrary to market effects- leads typically to a different result as

¹³¹ *Dethloff*, European Conflict of Law provisions governing unfair competition, Commercial Communications, December 1999, 2 at 6.

¹³² *Kieninger*, Die Lokalisierung von Wettbewerbsverstößen im Internet – Ist das Markortprinzip zukunftsfähig?, Leible (ed), (*supra*, note 120), 121, at 132-133.

¹³³ *Ohly*, (*supra*, note 19), at 253-254. Compare to *Boschiero*, Il principio di territorialità in materia di proprietà intellettuale: conflitti di leggi e giurisdizione, *AIDA* (2007), 34, 73, on the community exhaustion of IP rights as a particular expression of the origin principle.

to the applicable than the *lex loci protectionis*, restriction of the country of origin principle to unfair competition may also raise certain difficulties in those areas in which IP and unfair competition overlap.

b) TV and E-commerce Directives

29. Directive 89/552/EEC on television broadcasting, amended by Directives 97/36/EC and 2007/65/EC, established the country of origin principle as regards certain advertising restrictions. Article 2(1) states that audiovisual media services transmitted by media service providers under the jurisdiction of one Member State may be transmitted to the whole EU provided that they comply with the rules applicable in that Member State. Therefore, those providers are not obliged to comply with stricter rules adopted by the Member States of reception. Those stricter rules may exist given that under Article 3(1) Member States remain free to enact them in the areas covered by the Directive¹³⁴. According to Article 2a paragraph 1 Member States shall not restrict retransmissions on their territory of audiovisual media services from other Member States for reasons which fall within the field coordinated by the Directive¹³⁵.

Under the Directive, the relevant subject to determine the country of origin is the media service provider and not the advertiser whose location is not relevant to that effect¹³⁶. The country of origin rule applies only to the field coordinated by the Directive that covers exclusively the issues harmonized by the Directive, including certain rules on TV advertising and sponsorship. The approximation achieved in that area remains partial and it is mainly focused on specific provisions of TV advertising, leaving untouched broader issues of fair competition and protection of consumers. Only inasmuch as an issue has been subject to harmonization under the Directive, the law of origin prevails over the laws of the receiving Member States. The law applicable to all other issues remains unaffected and hence beyond the coordinated field the market effect principle remains the general choice of law rule on TV advertising.

30. E-commerce is connected, especially in the context of the internal market¹³⁷ to the need to consider the risks and costs arising from the cumulative application of the laws of the different markets to which

¹³⁴ ECJ 9 February 1995, *Leclerc-Siplec*, case. C-412/93, paras. 44-47.

¹³⁵ ECJ 10 September 1996, *Comisión c. Bélgica*, case C-11/95, paras. 20-23.

¹³⁶ *Institut für Europäisches Wirtschafts- und Verbraucherrecht*, (*supra*, note 13). vol. 3, p. 331.

¹³⁷ *Grundmann*, *Das Internationale Privatrecht der E-Commerce-Richtlinie – was ist kategorial anders im Kollisionsrecht des Binnenmarkts und warum?*, *RabelsZ*, 2003, 246, at 271-272.

commercial activities may be addressed. Article 3 of the E-commerce Directive contains the so-called internal market clause. Under paragraph 1, each Member State shall ensure that the services provided by a service provider established on its territory comply with the national provisions applicable in that which fall within the coordinated field. According to paragraph 2 Member States may not, for reasons falling within the coordinated field, restrict the freedom to provide information society services from another Member State. Annex I of Directive 2000/31/CE explicitly states that Article 3 (1) and (2) do not apply to copyright, neighbouring rights, as well as industrial property rights. Hence, IP is expressly excluded from the internal market clause. By contrast, cross-border commercial communications and hence unfair competition law is the basic area of application of the internal market rule of that Directive.

The internal market clause of Article 3 only covers the questions which fall within the coordinated field. When defining its coordinated field Directive 2000/31/EC chooses a solution different from that of the Directive on TV broadcasting. The different approach taken determines that the scope of the principle of origin is much broader in the E-commerce Directive¹³⁸, since the coordinated field is not limited to the concrete questions in which the Directive adopts common standards. Under Article 2(h) and (i) the coordinated field covers, among others, requirements with which the service provider has to comply in respect of the pursuit of the activity of an information society service, including those applicable to advertising. The harmonizing scope of the Directive which focuses on some specific aspects related to electronic commerce and the provision of information society services is very limited. In particular, it does not contain rules on advertising except those imposing some requirements and restrictions on certain commercial communications¹³⁹.

31. Aside from the internal market clause in Article 3, Recital 23 of the Directive emphasises that “provisions of the applicable law designated

¹³⁸ *Bodewig*, Elektronischer Geschäftsverkehr und Unlauterer Wettbewerb, GRUR Int, 2000, pp. 475, at 478-479; MünchKommBGB(2006)/*Drexler*, IntUnlWettbR, RdNr, 45 ff; *Brömmelmeyer* (*supra*, note 63), 146 ff.

¹³⁹ *Spindler*, E-Commerce in Europa. Die E-Commerce-Richtlinie in ihrer endgültigen Fassung, MMR, vol. 3, 2000, pp. 4-21; and *Antoine*, L’objet et le domaine de la Directive sur le commerce électronique, in: Le commerce électronique européen sur les rails? (2001), 1-29. According to the Annex, the origin principle does not apply to the permissibility of unsolicited commercial communications by electronic mail and that derogation would lead to the application typically of the laws of the countries of destination *Mankowski*, Particular Kinds of Unfair Competition on the Internet and the Conflict of Laws, IIC, 2001, 390, at 407-408-, but uniformity on that issue within the EU is now basically guaranteed by Article 13 Directive 2002/58 on privacy and electronic communications.

by rules of private international law must not restrict the freedom to provide information society services”. Additionally, Article 1.4 provides that the Directive “does not establish additional rules on private international law”. The lack of clarity with respect to the determination of the law applicable to international activities¹⁴⁰ has influenced the uncertainty of implementing legislations¹⁴¹, and has also caused an intense debate, with highly controversial opinions, at least on first appearance.

According to an opinion, Article 3 is to be understood as a conflict of laws rule that mandates the application of the law of the Member State in which the service provider has its establishment¹⁴². Such a remission shall displace within the coordinated field the general conflict of laws rule, replacing in the field of unfair competition the rule that leads to the application of the law of destination (or the various countries of destination). That approach is regarded as necessary in order to ensure that the provision of information society services is possible throughout the EU solely subject to the legislation of the Member state in which the provider is established. However, the idea that the origin principle is a true conflict of laws rule in the Directive raises significant difficulties¹⁴³. For instance, for the recipients of the services the determination of the place of origin may turn out to be uncertain. Further, the areas covered by the coordinated field, mainly advertising and unfair competition, have close links with some subjects to which the internal market clause does not apply, such as IP. The introduction of a specific choice of law rule deviating from the general rules may undermine the coordination between the law applicable to those related subjects. In addition, such an interpretation may erode the level of protection favouring the so-called “race to the bottom” in an area in which the internal market clause applies to issues that have not been harmonized¹⁴⁴.

¹⁴⁰ Such lack of clarity has even raised doubts about the validity of the Directive, see *Cachard*, *Le domaine coordonné par la Directive sur le commerce électronique et le droit international privé*, RDAI/IBLJ, 2004, pp. 161-179, p. 177.

¹⁴¹ *Spindler*, *Das Gesetz. zum elektronischen Geschäftsverkehr – Verantwortlichkeit der Diensteanbieter und Herkunftslandprinzip*, NJW, 2002, 921, at 925-926; *Commission*, “First Report on the Application of Directive 2000/31/CE”, de 21 de noviembre de 2003, COM (2003) 702 *final*, p. 8.

¹⁴² *Mankowski*, *Das Herkunftslandprinzip als Internationales Vertrags- und Deliktsrecht*, ZVglRWiss 2001, 138 ff; *Thünken*, *Die EG-Richtlinie über den elektronischen Geschäftsverkehr und das internationale Privatrecht des unlauteren Wettbewerbs*, IPRax, 2001, 15, 20; *Spindler/Fallenböck*, *Das Herkunftslandprinzip der E-Commerce-Richtlinie und seine Umsetzung in Deutschland und Österreich*, ZfRV, 2002, 214, 221.

¹⁴³ *Mankowski*, *Internet und Internationales Wettbewerbsrecht*, GRUR Int, 1999, 909, at 913-915.

¹⁴⁴ *Grynbaum*, *La Directive commerce électronique ou l’inquiétant retour de l’individualisme juridique*, La Semaine Juridique, n 41, 11 October 2001, 1617, 1620.

Another view considers that the objectives of the Directive do not require the origin principle to have the nature of a true conflict of laws rule¹⁴⁵. According to this interpretation it would be sufficient to ensure that the rules of the law applicable by virtue of the pre-existing conflict of laws rule shall be replaced by the substantive provisions of the country of origin in case the laws of the other countries turn out to be contrary to the Directive for imposing restrictions that do not exist under the law of the Member State in which the service provider is established. This understanding is in tune with the previous functioning of the internal market, since, in general, primary Community law may also prohibit the application to intra-community activities of certain provisions of the national law applicable under the general conflict of laws rules, provided that the national provisions impose restrictions to intra-community trade that cannot be justified under Articles 30 and 46 EC Treaty nor under the *Cassis* doctrine of the ECJ¹⁴⁶. Moreover, the absence of a conflict of laws rule does not exclude that in order to fulfil the requirements of the country of origin principle the national laws transposing the Directive contain some specific and mandatory criteria on the territorial scope of their own rules with respect to providers established in its territory. In fact, the coordinated field includes both administrative or public law rules and also typical rules of private law.

A systematic interpretation of Article 3 of the Directive with the provision set forth in Article 1(4) and with recital 23 of its Preamble, in tune with the function traditionally assigned to mutual recognition within the internal market tends to favour the view that the Directive does not call for the adoption of a specific conflict rule for intra-community e-commerce activities. This interpretation seems to be reaffirmed by the evolution of Community law after the E-commerce Directive, especially considering the Rome II Regulation, the Directive on unfair commercial practices and the Directive on Services.

¹⁴⁵ *Fezer/Koos*, Das gemeinschaftsrechtliche Herkunftslandprinzip und die E-commerce Richtlinie, *IPRax*, 2000, 349, 352; *Ahrens*, Das Herkunftslandprinzip in der E-Commerce-Richtlinie, *CR* 2000, 835, 837-838; *Ohly*, Herkunftslandprinzip und Kollisionsrecht, *GRUR Int*, 2001, 899, at 902-903; *De Miguel Asensio*, Directiva sobre el comercio electrónico: Determinación de la normativa aplicable a las actividades transfronterizas, *RCE*, num. 20, 2001, 3, 23-39; *Fallon/Meeusen*, Le commerce électronique, la directive 2000/31/CE et le droit international privé, *Rev.cr.dr.int.pr.*, 2002, 434, 486-487; More recently, discussing the Rome II Regulation, see *Leistner* (*supra*, note 116), at 188.

¹⁴⁶ *Sonnenberger*, Europarecht und Internationales Privatrecht, *ZVglRWiss*, 1996, 3, at 3-4; *De Miguel Asensio*, Integración europea y Derecho internacional privado, *RDCE*, 1997(2), 413, at 431-432; and *Fallon/Meeusen*, Private International Law in the European Union and the Exception of Mutual Recognition, *Yearbook PIL*, 2002, pp. 37-66, pp. 50-65..

As regards the Rome II Regulation, although Article 23 of the Preliminary Draft Proposal contained a provision aimed at clarifying the relationship with EC instruments including an internal market clause as the E-commerce Directive, the rule was not satisfactory¹⁴⁷ and its content was mainly deleted during the legislative process. Article 27 of the Regulation only includes a general rule stating that the Regulation shall not prejudice the application of provisions of Community law which, in relation to particular matters, lay down conflict-of-law rules relating to non-contractual obligations. The relationship between the Rome II Regulation and the E-commerce Directive is expressly mentioned in the Preamble of the Regulation. Recital 35 stresses the importance of avoiding the dispersion among several instruments of different conflict-of-law rules, but it admits the possibility of inclusion of conflict-of-law rules relating to noncontractual obligations in provisions of Community law with regard to particular matters. Additionally, Recital 35 declares that the Rome II Regulation should not prejudice the application of other instruments laying down provisions designed to contribute to the proper functioning of the internal market in so far as they cannot be applied in conjunction with the law designated by the rules of the Regulation. In this connection, the Preamble stresses that the application of provisions of the applicable law designated by the rules of the Regulation should not restrict the free movement of goods and services as regulated by Community instruments, and mentions the E-commerce Directive as an example of such instruments. The approach taken in the Preamble seems to favour the view that the internal clause of the E-commerce Directive do not impose the principle of origin as a conflict rule applicable to all issues covered by the coordinated field that displace the otherwise applicable conflicts rule.

c) Directives on unfair commercial practices and services

32. Directive 2005/29/EC on unfair commercial practices provides for maximum harmonization. Maximum harmonisation reflects a policy shift since traditionally Community directives in the field of consumer protection and unfair competition had established minimum standards. Maximum harmonisation in this field was previously only an exception as was the case with the amendments concerning comparative advertising introduced in Directive 84/450/EEC by Directive 97/55/EC. Minimum harmonisation does not prevent the Member States from retaining or

¹⁴⁷ Dickinson, (*supra*, note 87), at 379-381; and Vermeer, Electronic Unfair Competition and Applicable Law: An Open Spot in the European Jungle, *Electronic Journal of Comparative Law*, vol. 7.5, 2003, 1, at 4.

adopting more restrictive measures within the limits of the proportionality principle. The rationale behind maximum harmonisation in the Unfair Commercial Practices Directive is to avoid barriers resulting from legal disparities between Member States and to promote certainty concerning the rules applicable to cross border marketing activities. However, maximum harmonisation is combined in the Directive with a transition period in which Member States are allowed to continue to apply stricter national provisions within the field approximated by the Directive¹⁴⁸.

The role that the country of origin principle plays in the Directive is also controversial. The drafting of the internal market clause of the Directive was substantially changed during its legislative process. Article 4 of the 2003 Proposal established the country of origin principle in terms that went one step forward than the E-commerce Directive. Article 4(1) of the Proposal provided that traders should only comply with the national provisions, falling within the field approximated by the Directive, of the Member State in which they are established. Additionally, under that provision the Member State in which the trader is established should ensure such compliance. For the Commission, the changes introduced in the wording of the internal market clause as compared to the E-commerce Directive were a significant innovation related to the high level of harmonization achieved. The proposal favoured the view that the origin principle should be interpreted as a conflict-of-laws rule leading to the exclusive application of the law of origin within the field approximated by the Directive. However, the controversy raised by the origin principle during the negotiation process ended with the suppression of Article 4(1). The internal market clause in the final text of the Directive contains only the second paragraph of Article 4 of the Proposal. The Directive in Article 4 only states that Member States shall neither restrict the freedom to provide services nor the free movement of goods for reasons falling within the field approximated by the Directive. When accepting the amendment introduced by the Council to Article 4 of its proposal, the Commission made a declaration stating that it could only agree to the deletion of Article 4(1) on the understanding that the Directive “provides for a full harmonisation of the domain covered by the directive and that for this reason Article 4(1) is not legally required to ensure the proper functioning of the internal market in this field”¹⁴⁹.

¹⁴⁸ Article 3(5) admits the possibility to prolong the derogation; furthermore, according to Article 3(4) Community rules regulating specific aspects of unfair commercial practices shall prevail over the Directive; additionally, national legislation adopted to comply with Directives that only set minimum standards can still be decisive to assess if commercial practices are regarded as misleading omissions under Article 7(1) and (5). See Howells/Micklitz/Wilhelmsson/Micklitz (*supra* note 3), at 39.

¹⁴⁹ See COM(2004) 753 *final*, p. 8.

33. Inasmuch as the Directive contains rules that establish maximum harmonisation the country of origin rule becomes certainly less significant, since common rules apply to all EU Members that are not allowed to establish divergent rules. In this connection the current wording of Article 4 basically confirms the view that to the extent that an area of the law has been fully harmonised it is not possible to have recourse to Article 30 EC Treaty or to the *Cassis de Dijon* doctrine to justify more restrictive rules¹⁵⁰. At any rate, after the suppression of Article 4(1) of the proposal it seems clear that this Directive does not impose a specific conflict rule for intra-community activities that derogates from the market effects rule. The general conflict rule applicable to unfair commercial practices remains unchanged, although under EC law the applicable substantive law can not impose further restrictions to those contained in the law of origin as far as full harmonisation has been achieved. The principle of origin in the areas which have been fully harmonised within the Community is to be interpreted as demanding that the governing law under the choice of law rule on unfair competition be in conformity with Community law and especially with the relevant Directive¹⁵¹.

This view may have significant practical implications given that even maximum harmonisation is not equal to total unification by means of a regulation and therefore divergences between Member States laws may remain¹⁵². Furthermore, some areas of the law on unfair commercial practices harming consumers' interests have not been completely harmonised by Directive 2005/29/EC, since issues of taste and decency as well as social responsibility remain outside its scope¹⁵³. The Directive is without prejudice to national rules on contract law, on IP rights, on the health and safety of products, and authorisation regimes (Recital 9). Non-harmonised matters are not affected by Article 4.

34. The trend to disregard the introduction of the principle of origin as a conflict rule that replace the general conflict rules for intra-Community activities has been reaffirmed by Directive 2006/123/EC on services in the internal market. The initial text presented in 2004 by the Commission¹⁵⁴ proposed the application of the country of origin principle

¹⁵⁰ See Howells/Micklitz/Wilhelmsson/Micklitz, (*supra*, note 3), at 44-47.

¹⁵¹ Ohly, “Das Herkunftslandprinzip im Bereich vollständig angeglichenen Lauterkeitsrechts”, *WRP*, 2006, 1401, at 1411-1412.

¹⁵² Siehr, Das Herkunftslandprinzip im IPR, in: Reichelt (ed.), *Das Herkunftslandprinzip im Europäischen Gemeinschaftsrecht*, (2006), 93, at 98-99.

¹⁵³ See Recital 7 of the Preamble; and Howells/Micklitz/Wilhelmsson/Wilhelmsson, (*supra*, note 3), at 59.

¹⁵⁴ COM(2004) 2 final.

in very broad terms with an aim to ensure that the taking up and the pursuit of the service activity, including provisions on advertising and fair trading, were subject only to the law of the Member State where the service provider is established. The rationale of the Directive, whose substantive harmonizing provisions were very limited, was that intra-community activities of provision of services should be governed by the law of origin as regards all those issues covered by the coordinated field that was defined in particularly broad terms.

The Proposal experienced radical changes in this connection during the legislative process. In the final version of the Directive, Article 3(2) states that the Directive “does not concern rules of private international law, in particular rules governing the law applicable to contractual and non contractual obligations. Furthermore, Article 17 includes, among the derogations from the freedom to provide services, IP rights and “provisions regarding contractual and non-contractual obligations... determined pursuant to the rules of private international law”. By contrast to the initial Proposal¹⁵⁵, these provisions do not include a general choice of law rule based on the principle of origin that would prevail over Article 6 Rome II Regulation. Without prejudice to Article 16, those rules basically reaffirm the situation resulting from the case-law of the ECJ on the prohibition by the EC Treaty of restrictions on freedom to provide services within the Community in respect of providers established in other Member State¹⁵⁶.

VI. “Multi-state” activities as a factor of convergence

1. Determination of the connecting factors

35. The *lex loci protectionis* and the market effects rule lead usually to the distributive application of a plurality of laws with respect to activities performed through the Internet. In the context of ubiquitous or global media the main criteria for the interpretation of territoriality and the market principle are common to choice of law rules on IP infringements and unfair competition acts. The law of each market or protecting country is typically applicable inasmuch as the activity produces effects in its respective territory. In this connection, it seems appropriate, at least as a starting point, the view that the so-called target country is usually a key

¹⁵⁵ *Struycken*, *Herkunftslandprinzip und Dienstleistungsrichtlinie*, in: Reichelt (ed.), (*supra*, note 152), 35, at 42.

¹⁵⁶ *Kampf*, *EU- Dienstleistungsrichtlinie und Kollisionsrecht*, IPRax, 2008, 101, at 104; and *Roth*, *Die Dienstleistungsrichtlinie und der Verbraucherschutz*, in: *Leible* (ed.), *Die Umsetzung der Dienstleistungsrichtlinie – Chancen und Risiken für Deutschland* (2008), 205, 224.

factor in the two fields¹⁵⁷. The application of both conflict-of-laws rules to such activities may create similar difficulties in these situations. So-called ubiquitous media create special difficulties in determining to what degree activities carried out through that media infringe IP rights in the countries considered. That situation raises doubts about the exercise and scope of the typical actions against IP infringements or acts of unfair competition, for example, concerning damages or the scope of injunctions ordering a party to desist. Coexistence in the Internet between different national IP rights can only be achieved if injunctions are limited to what is necessary to exclude significant commercial effects on the territories covered by the infringed IP rights.

One of the pioneering efforts to achieve a reasonable balance between territoriality of IP rights and the global reach of Internet activities is the 2001 WIPO Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet. The Recommendation is based on the so-called principle of proportionality, establishing that an infringement can be found only to the extent that the relevant activities have significant effect within a given jurisdiction. This balanced application of the market effects principle to Internet activities seems to be the most reasonable approach when interpreting the choice of law rules based on territoriality not only regarding unfair competition practices but also IP infringements, as illustrated especially by the developments in trademark law¹⁵⁸ and the protection of signs in general. The rules of the Recommendation that determine if the use of a sign in the Internet amounts under the applicable law to an IP infringement or an unfair commercial practice committed in the relevant country are common to both fields.

36. In the context of the Internet, it is especially important a restrictive understanding of the market effects principle that justifies only the application of the law of a country to activities that produce substantial impact in its market¹⁵⁹. The final text of Article 6 Rome II, contrary to the text of the Commission proposal of 2003 does not expressly require that the relevant market be “directly and substantially” affected. However, the criterion that the effects on the market must be relevant enough to influence competition in the market concerned should be considered implicit in the term “affected” of Article 6(1)¹⁶⁰ and strong practical reasons support an interpretation of Article 6 in line with that

¹⁵⁷ Hoeren, “Internet und Recht - Neue Paradigmen des Informationsrechts”, NJW, 1998, 2849, at 2851.

¹⁵⁸ Ohly (*supra*, note 120), at 141-145.

¹⁵⁹ Buchner, (*supra*, note 75), at 1007.

¹⁶⁰ Leible/Lehmann (*supra*, note 100), at 729.

approach¹⁶¹. Article 8 lacks also an explicit *de minimis* rule for IP, but infringement should be established if and to the extent that the actions concerned have a direct and substantial impact in the country for which protection is sought, although in practice that is for the respective *lex loci protectionis* to determine. In practice, a clear-cut distinction between conflict and substantive rules in this area is not always possible. The *lex protectionis* as *lex causae* determines when an infringement takes place, since each state establishes the scope of protection of its own IP rights and the activities that infringe the exclusive rights. Also, the law of the affected market as *lex causae* determines when an unfair commercial practice has been committed. In any event, the final result should remain the same regardless of the consideration of the *de minimis* rule as a conflict or a substantive issue. Certainly, its treatment as a substantive issue would be without prejudice to the application of the defence mechanisms of the PIL of the forum country, such as the public policy exception in case of a grossly excessive scope of application of the *lex causae*, for instance if it is applicable to activities carried out through web sites having no significant influence in that country due to the fact that mere accessibility in its own country is considered by the *lex causae* as enough basis for the application of its IP or unfair competition laws.

Given that normally the *lex loci protectionis* and the market effects principle only justify the application of the unfair competition rules of the countries/markets where the activity concerned has significant influence or produces substantial effects, the idea that such situation occurs in any country in which the information of a web site turns out to be accessible can not stand up for a number of reasons. This is because mere accessibility does not produce the significant impact in the market concerned required to justify the application of its own law to activities carried out through Internet. Decisive should be that the web site has a commercial effect in the relevant country, typically because it is aimed at potential clients in that market. In order to establish when a web site produces such an impact, the objective assessment of all relevant factors should be decisive and not the subjective intentions to limit the activities to certain countries¹⁶². A number of factors can be relevant when making that assessment¹⁶³. The configuration and content of the web site and the activities of its owners shall turn out to be fundamental in most cases: the inclusion of geographic contact addresses, its domain name, the language used (especially when dealing with one that is only spoken in a certain

¹⁶¹ Handig (*supra*, note 110), at 28.

¹⁶² Kieninger (*supra*, note 132), at 128-129.

¹⁶³ Mankowski, (*supra*, note 143) at 916-919; Thünken, (*supra*, note 142), at 16; and De Miguel Asensio, (*supra*, note 28), at 205.

territory)¹⁶⁴, the conclusion of contracts with local residents, the goods or services provided (that can appear clearly aimed at a certain territory, for example, in situations in which the delivery area only covers a town). Also, circumstances such as promotion of the web site in other media directed to a certain country or in web sites or directories addressed to a given market may be relevant to consider that commercial activities carried out through that web site produce substantial effects in that country.

This medium’s global impact means that, if from the design and functioning of the web site do not result that its reach is limited to certain markets, in many situations the finding will prevail that the site affects different markets. Under those circumstances to avoid legal risks the web site should comply with the strictest regime of all those markets. Further, current technologies make possible territorial delimitation of Internet activities, providing precise information, for instance, about the territory in which the user that intends to access some contents is located. Hence effective systems can be established to restrict activities to certain countries.

37. The decisive element to determine the place of protection is in principle the place in which the exclusive rights are infringed, for example the territory in which the non-authorized digitalization of a work takes place, the country from which the work is uploaded on a server connected to the Internet, or the place in which the computer which downloads the protected work is located. In general, determining if and to what extent such conduct constitutes an infringement of IP rights, typically territorial, the remedies available against such acts and the holder of the rights, corresponds, by virtue of the rule *lex loci protectionis*, to the law of the country where the alleged infringement occurs. Application of the *lex loci*

¹⁶⁴ A joint declaration by the Council and the Commission on Article 15 of the Brussels I Regulation –included also in recital 24 of the Preamble of the Rome I Regulation– states that the language or currency which a website uses does not constitute a relevant factor to determine if its activities are targeted at a Member State, but no special reasons are presented to justify such approach. It does not seem appropriate to exclude completely those factors when assessing under Article 6 Rome II Regulation where competitive relations or the collective interests of consumers are affected. Recital 33 of the Preamble of Directive 2007/65 on TV broadcasting, acknowledges that a Member State, when assessing whether a broadcast is wholly or mostly directed towards its territory, may refer to indicators such as the main language of the service. Among the factors to be considered when determining if a person directs his activities to a State in the framework of the ALI Principles, language and currency are expressly mentioned, see Comments to § 204 (“Indicia such as language may be particularly probative with respect to the Internet”) and § 207(6); see also Article 3 (“Factors for Determining Commercial Effect in a Member State”) of the WIPO Joint Recommendation.

protectionis rule to situations concerning the parallel download of works protected by copyright has provoked prolonged argument. In this connection, it has been noted that given that unfair competition practices result from the infringement of rules of conduct and by contrast protection of IP rights relates to the enforcement of absolute and exclusive rights, some IP rights may grant protection and be applicable to activities which result in a (non-commercial) use of a work protected by copyright that infringe the absolute right in a given territory even if the web site is not aimed at marketing the protected work in that territory¹⁶⁵. Such possibility is a consequence of the different nature of unfair competition law and IP rights. Given the nature of IP rights as exclusive rights, preparatory activities concerning products intended for foreign countries are governed by the *lex loci protectionis*. By contrast, under the market effect principles merely preparatory activities in a country are not governed by its unfair competition law if the activities do not affect that market¹⁶⁶.

However, the idea that the *lex loci protectionis* imposes the application solely of the law of origin to the parallel download of works protected by copyright seems controversial. Application of the law of origin (even understood as the place of establishment of the person that uploads the contents) in cases in which a work has been made available to the public by ubiquitous media and members of the public located in different countries had access to those contents or downloaded them may undermine the proper meaning of the *lex loci protectionis* rule¹⁶⁷. The issue at stake is which is the law applicable with respect to the interactive transmission on line of a work, which is different from the previous copying in order to introduce the work on the server (governed by the law of the country where the server is located or the law of the country from where the contents are uploaded)¹⁶⁸. Territoriality of IP rights and the *lex loci protectionis* rule lead basically to the distributive application of the laws of all those countries in which the relevant conduct or activity has a direct and substantial impact¹⁶⁹. Only to the extent that under the law of the country where the uploading activities take place such activities although directed to third countries infringe its own IP rights, application

¹⁶⁵ Spindler, *Morpheus, Napster & Co. – Die kollisionsrechtliche Behandlung von Urheberrechtsverletzungen im Internet*, Leible (ed.), (*supra*, note 120), 155, at 172.

¹⁶⁶ Virgós Soriano (*supra*, note 66), at 88 and 90.

¹⁶⁷ Bariatti, *Internet e il diritto internazionale privato: aspetti relativi alla disciplina del diritto d'autore*, AIDA, 1996, 59, 74.

¹⁶⁸ Schonning, *Applicable Law in Transfrontier On-Line Transmissions*, RIDA (1996), 21, 26 ff; and *Internet and the Applicable Copyright Law: A Scandinavian Perspective*, EIPR, (1999), 45, 46.

¹⁶⁹ Ginsburg, (*supra*, note 24) at 323; Geller, *International IP, Conflicts of Laws and International Remedies*, EIPR, 2000, 125, 129.

of that law with respect to activities having a substantial impact in third countries seems justified under the *lex loci protectionis* rule. Such possibility may favour in practice the adjudication of “multinational infringements” since the courts of that country –where typically the party arranging the upload is established- may be competent (usually under Article 2 Brussels I Regulation) to decide on liability resulting from those activities without any territorial restriction.

2. The search for alternatives

A) Party autonomy

38. As noted earlier, both the *lex loci protectionis* rule for IP and the market effects rule for unfair competition have traditionally been regarded as mandatory. The Rome II Regulation expressly excludes a party choice for acts of unfair competition and infringements of IP rights –Arts. 6(4) and 8(3)-. This outcome seems in line with the legal situation in most Member States. Indeed, the foundations of the *lex loci protectionis* in the area of IP and the market effects rule in the field of unfair competition lead to the typically mandatory and absolute nature of both conflict rules¹⁷⁰. In this connection, it is widely accepted that the law applicable to the existence of an IP right, its validity, scope, contents, duration and infringement is the law of the protecting country and that freedom of choice is not allowed. Also, it is not controversial that the application of the market effects rule to determine what conducts are considered as unfair commercial practices can not depend on the will of two parties.

Considering the role of party autonomy in torts under Rome II and the interests and policies underlying IP and unfair competition, a trend has developed in favour of accepting party autonomy in those areas but with a very limited scope, covering only compensation resulting from the infringement of those rights or rules of conduct. Article 110(2) of the Swiss PIL Act was a significant innovation inasmuch as it introduced to a limited extent freedom of choice regarding the law applicable to IP infringements, although the scope of this provision and its practical implications are rather limited. Firstly, freedom of choice only covers some specific issues resulting from IP infringements, in particular those regarding patrimonial consequences and compensation. All other aspects of IP rights, such as validity, ownership, contents, effects, scope of protection, transferability, remedies, duration... remain governed by the *lex loci protectionis*. Therefore, the existence of an infringement shall be

¹⁷⁰ Koos (*supra*, note 64), at 76-77.

decided only by the *lex loci protectionis*¹⁷¹. Secondly, only *ex post* party autonomy is allowed, since the parties can only choose once the act of infringement has taken place. Finally, Swiss law enables the parties only to choose forum law. Such restriction seems to exclude other options without reasonable justification.

The tendency to favour party autonomy extends also to unfair competition. Freedom of choice was also established in Article 6 of the 2001 Dutch Act on the law applicable to non-contractual obligations. That provision allowed parties to choose the law applicable without any time restriction accepting agreements entered into before the event giving rise to the damage occurred. Additionally, Article 6 expressly states that the agreement between the parties prevails over the choice of law rules established in Articles 3 to 5. Party autonomy applies also to non contractual obligations arising out of an act of unfair competition and prevails over the conflict rules on unfair competition established in Article 4, including the market effects rule¹⁷².

39. Exclusion of non-contractual claims resulting from IP infringements and unfair competition practices from party autonomy raised some controversy during the making of the Rome II Regulation. In fact, the preliminary proposal of 2002 did not exclude infringements of IP nor unfair competition acts from freedom of choice. Article 10 of the 2003 Proposal presented by the Commission excluded a party choice only for infringements of IP rights but not unfair commercial practices. Furthermore, the European Parliament in its 2005 Report on the Proposal considered that "there also seems to be no reason why such agreements cannot be concluded in relation to IP" and it also challenged the limitation of party autonomy to those situations in which the agreement between the parties is concluded after their dispute arose¹⁷³. These views influenced the Position of the Parliament adopted at first reading on 6 July 2005, that suppressed the exclusion of IP infringements from party autonomy and allowed freedom of choice even before the dispute between the parties arose.

Articles 6(4) and 8(3) Rome II Regulation exclude party autonomy in IP or unfair competition claims. However, considering the role of party

¹⁷¹ *Vischer*, (*supra*, note 79), at 680.

¹⁷² *Kadner Graziano* (*supra*, note 105), at 138-139.

¹⁷³ See Report on the proposal for a regulation of the European Parliament and of the Council on the law applicable to non-contractual obligations ("Rome II"), 27.6.2005, PE 349.977v04-00 A6-0211/2005 (COM(2003)0427 - C5-0338/2003 - 2003/0168(COD)), Amendment 25, Justification.

autonomy under Article 14 as a general rule¹⁷⁴ and that in the bilateral acts of unfair competition included in Article 6(2) the rationale for the mandatory application of the market effects rule is not present, a possible exception for these situations has been considered. In this connection, it has been stressed that freedom of choice may be admitted given the specific aims of those rules on bilateral practices. In those cases, exclusion of party autonomy does not seem necessary to protect equality between competitors in the market nor consumer interests¹⁷⁵. Although it has been argued that the wording of Article 6(4), stating that “the law applicable under this Article may not be derogated from by an agreement pursuant to Article 14” can be understood as allowing party autonomy in the situations covered by Article 6(2) since those cases are governed by Article 4 and not Article 6¹⁷⁶, uncertainty remains as to the compatibility of that interpretation with the Regulation due to the position of the rule disallowing party autonomy in paragraph 4¹⁷⁷.

40. The overall exclusion of party autonomy in the final version of the Regulation and the lack of explanation of the changes during the legislative process have been considered unsatisfactory, especially given that in some Member States –such as Belgium and The Netherlands- a party choice was possible under national law and that evolution in these areas favour a limited acceptance of party autonomy¹⁷⁸. It has been argued that the policies and interests underlying IP and unfair competition decisively affect legislation on the existence and protection of those rights or the prohibition of commercial practices deemed unfair, but there is no reason to exclude freedom of choice as far as compensation resulting from the infringement of those rights or rules of conduct are concerned in a system, such as the one established in the Rome II Regulation, that admits freedom of choice as a general rule¹⁷⁹. Hence, although *de lege lata* the Rome II Regulation excludes such possibility, a trend has developed in favour of limited party autonomy concerning the law applicable to compensation, not covering the determination of the unlawfulness of the act. Such possibility is considered useful as a source of legal certainty in

¹⁷⁴ Leible, *Rechtswahl im IPR der außenvertraglichen Schuldverhältnisse nach der Rom II Verordnung*, *RfW*, 2008, 257, 258.

¹⁷⁵ Wagner (*supra*, note 96), at 8; and Paredes Pérez, *Sobre la conveniencia de una norma de conflicto bilateral sobre competencia desleal*, *AEDIPr*, 2006, 427, 440.

¹⁷⁶ Leible/Lehmann (*supra*, note 100), at 730-731.

¹⁷⁷ Considering also unsatisfactory the exclusion of freedom of choice under Article 6(4), van Echoud, (*supra*, note 58), at 7.

¹⁷⁸ Van Echoud, (*supra*, note 58), at 4 and 7; on the acceptance of party autonomy in the field of unfair competition, see Kadner Graziano, (*supra*, note 63), at 87.

¹⁷⁹ Amores Conradi/Torrallba Mendiola, XI tesis sobre el estatuto delictual, REEL, 2004, number 8, 1, at 15.

claims concerning alleged infringements in multiple countries and in situations in which non-contractual claims are closely related to contractual disputes¹⁸⁰. The choice of law clause reached in the contract may be broad enough to extend also to non-contractual claims related to the subject matter of the contract, allowing the parties to subject the contractual and non-contractual aspects of a claim to a single applicable law.

The acceptance of freedom of choice referred solely to the economic consequences of cross-border IP infringements resulting from an agreement freely negotiated between parties that pursue a commercial activity seems a development compatible with the foundations of the choice of law rules on IP rights that would remain mandatory as regards all other issues¹⁸¹. This trend in favour of limited party autonomy is illustrated by the proposals made by the ALI and the European Max-Planck Group (CLIP). As regards the ALI Principles, § 302 establishes that parties may agree at any time, including after a dispute arises, to designate a law that will govern all or part of their dispute, except to issues such as the validity of IP rights; the existence, attributes, transferability, and duration of rights, whether or not registered; and the formal requirements for recording assignments and licenses. It also affirms that any choice-of-law agreement may not adversely affect the rights of third parties. The rationale for introducing party autonomy seems to a certain extent common to IP infringements and unfair commercial practices. It is true that in the case of unfair commercial practices additional restrictions are necessary, due to the possible effects of party autonomy on third parties and the general interests at stake¹⁸². Hence, in Germany non application of freedom of choice under Article 42 EGBGB to unfair competition claims has been based on a *teleologische Reduktion*. Additionally some specific risks have been identified. Choice by the parties of a more restrictive law could amount to a restriction of competition and the selection of a more permissive law could hamper the interests of other market participants and the equality of conditions of competition in a given market¹⁸³.

¹⁸⁰ Carruthers/Crawford (*supra*, note 88), Part I, 65, at 88.

¹⁸¹ Schack, (*supra*, note 54), 472-473; Amores Conradi/Torrallba Mendiola, “XI Tesis sobre el estatuto delictual”, REEI, 2004, ap. 21; and Amores Conradi/Heredia Cervantes, in: Bercovitz Rodríguez-Cano (ed.), *Comentarios a la Ley de propiedad intelectual*, 3 ed (2007), 2127, at 2162-2163; Leible (*supra*, note 174), at 259.

¹⁸² Mankowski, in: Münchener Kommentar Lauterkeitsrecht, 2006, IntWettbR Rdnr 238. However, it is noteworthy that Article 6(3) Rome II Regulation admits that the person seeking compensation for damage resulting from a restriction of competition may choose to base his claim on the law of the forum and hence the position of the Regulation on party autonomy is less restrictive than in the field of IP disputes, see Rodríguez Pineau (*supra*, note 100), at paras. 22-23.

¹⁸³ MünchKommBGB(2006)/Drexler, IntUnlWettbR, RdNr, 99.

All those arguments are in principle convincing but it seems doubtful that they could apply if freedom of choice were limited to the monetary consequences (compensation) between parties that pursue a commercial activity of unfair commercial practices –not, for example to the lawfulness of those acts–, provided that the choice-of-law agreement apply only to relations between the parties and therefore the rights of third parties should not be adversely affect¹⁸⁴. Under substantive law parties pursuing an economic activity can usually freely dispose of the economic consequences between them resulting from unfair commercial practices. Therefore, the choice of law agreement should not have any influence, for instance, on the possibility of consumers to obtain redress for those practices under the law applicable as a result of the mandatory conflict-of-laws rule or on the injunctions for the protection of consumers' interests brought by independent public bodies or organisations whose purpose is to protect the collective interests of consumers. At any rate, some practical problems from the fragmentation between the law applicable to the lawfulness of a conduct and to its economic consequences are likely to arise¹⁸⁵.

41. Unitary Community IP rights constitute an area in which party autonomy could play a role in determining the law applicable to IP infringements without undermining the traditional absolute nature of the *lex loci protectionis* as a choice of law rule. In this connection Article 8(2) Rome II Regulation provides a default rule that focuses on establishing which national law is to be applied to those issues relevant for the infringement which are not covered by the Community instrument. The rule of Article 8(2) Regulation 864/2007 poses significant risks of uncertainty since recourse to the place of the act of infringement can lead to the application of several laws to the infringement of the same right in cases in which the infringing acts take place in several Member States. An alternative to the application of several national laws to the infringement

¹⁸⁴ *Amores Conradi/Torralba Mendiola*, (*supra*, note 181); and *Von Hoffmann/Thorn*, *Internationales Privatrecht*, 9 ed, 2007, § 11 Rdnr. 53

¹⁸⁵ One further issue to consider is to what extent in those systems that adhere to the criterion that no derogations are allowed to the *lex loci protectionis* rule and the market effects principle, recourse to a different law by the rendering court may be an obstacle to the enforcement of a foreign judgment adjudicating activities relating to IP rights of the enforcing country or commercial practices having substantial effects in its market as contrary to public policy. Inasmuch as the application of the law other than the *lex loci protectionis* or the affected market was limited to the determination of the pecuniary redress of the infringement it may be argued that a restrictive interpretation of public policy should lead to accept the enforcement of such a decision, although that is something to be decided in accordance with the criteria on enforcement of foreign judgments of the country where enforcement is sought.

of a unitary right in those situations would require establishing connecting factors leading to the application of the law of a single Member States. Freedom of choice enabling the parties to choose among Member States’ laws could be a reasonable option¹⁸⁶. Although the practical use of that freedom of choice could be limited, such development seems even compatible with the maintenance of the *lex loci protectionis* as a mandatory conflict rule that does not admit exceptions (as it is under the Rome II Regulation) considering the restrictive scope of application of the chosen law¹⁸⁷.

B) Application of a single law

42. As noted earlier, both the *lex loci protectionis* rule and the market effects principle lead to the simultaneous application of a plurality of laws to multi-state activities. This so-called mosaic criterion may raise significant difficulties in the adjudication before a single court of non-contractual claims arising out of cross-border infringements or conducts committed through ubiquitous media, since it may yield multiple applicable laws. In order to avoid such difficulties certain proposals have been developed aimed at making possible the application of a single law to activities carried out through the Internet or other ubiquitous media. In particular, exceptional provisions making it possible the application of a single law in certain ubiquitous situations are advocated both by the ALI and the European Max Planck CLIP Group.

Certain exceptions can already be found in European legislation. As mentioned above, an example in the field of copyright is Article 1(2) Directive 93/83/EC on satellite broadcasting and cable retransmission. Further, Article 6(3)(b) Rome II Regulation dealing with the law applicable to a non-contractual obligation arising out of a restriction of competition establishes as an exception to the application of the law of the country where the market is affected the possibility for a single law to govern the

¹⁸⁶ See *Schaper*, Choice of Law Rules in the EU – Special Issues with Respect to Community Rights – Infringement of Community Trade Marks and Applicable Law, Drexl/Kur (eds.), (*supra*, note 19), 201, 211-212; *Metzger*, Community IP Rights & Conflict of Laws – Community Trademark, Community Design, Community Patent – Applicable Law for Claims for Damages, Drexl/Kur (*supra*, note 19), 215, at. 218-219 and 223; *Pertegás*, IP and Choice of Law Rules, *Malatesta* (*supra*, note 69), 221, 246.

¹⁸⁷ It is noteworthy that from Articles 90, 92 and 93 of the Community Trade Mark Regulation results that, in opposition to the treatment of disputes on validity of industrial property rights under Article 22 of Regulation 44/2001, parties are allowed to grant jurisdiction to the courts of a Member State to adjudicate disputes concerning the validity of Community Trademarks, since those rights have equal effect throughout the Community and that the parties’ freedom of choice is limited to the courts of Member States.

non-contractual obligations arising out of multi-state restrictions of competition when the market is affected in more than one country¹⁸⁸.

43. The proposals made in the model rules concerning infringements carried out through ubiquitous media are based on the idea that although such infringements are multinational it is appropriate to single out one or several countries having the closest connection with the infringement in order to avoid the distributive application of each country for which protection is claimed. For example, § 321 ALI Principles, include certain exceptions to the normal application of the basic conflict-of-laws rules on IP infringements and unfair competition acts. Those basic rules are established in § 301 that is founded on territoriality and requires the competent court to apply the laws of each affected State to that part of the infringement that take place within each State’s borders.

As an exception, § 321 ALI Principles allows the competent court to apply to the infringement of IP rights only the law or laws of the State or States with close connections to the dispute. Additionally that provision lists several factors that may be relevant to determine that close connection: residence of the parties; the place where the parties’ relationship is centered; the extent of the activities and the investment of the parties; and the principal markets toward which the parties directed their activities. § 321(2) ALI Principles allows a party to prove that with respect to particular States covered by the action, the solution provided by any of those States’ laws differs from that of the law applicable to the case as a whole given its close connection to the dispute, such difference shall be taken into account by the competent court when determining the scope of liability and remedies.

The simplification aim pursued by these rules is connected to the expansion of ubiquitous media. However, to the extent that they advocate for the introduction of exceptions to the *lex loci protectinis* the revision of the Rome II Regulation or the enactment of specific provisions in other instruments would be necessary to achieve these goals in the European context. The progressive development of international standards as proposed by the model principles in this area seems necessary to make such a revision possible. The determination of the country or countries having such close connection may be a source of uncertainty¹⁸⁹.

The rationale –to ensure effective protection at reasonable cost under a significant law- behind this evolution is common to Internet activities infringing IP rights or unfair competition practices, leaving aside those acts that affect exclusively the interests of a specific competitor.

¹⁸⁸ Brière (*supra*, note 92), at 44.

¹⁸⁹ Ohly, (*supra*, note 19), at 254.

Hence, it seems reasonable that the connecting factors proposed as alternative to the mosaic criterion (in particular, the closest connection) and their interpretation apply both to IP infringements and unfair competition acts.

44. The progressive development of internationally accepted substantive standards of IP protection and unfair competition may have significant implications for the successful adjudication of multinational infringement claims. § 321 ALI Principle departs from a presumption of similarity between the laws of the countries affected by a ubiquitous infringement. It has been pointed out that the difficulties resulting from the distributive nature of the *lex loci protectionis* as a conflict of law rule should not be overestimated, since in many cases the infringing acts will clearly fall within the scope of the *ius prohibendi* of the invoked IP right and therefore the determination as to whether or not an infringement was committed in each of the countries concerned may be founded on the basis of forum law plus a presumption that there is no significant difference between forum and foreign law on the scope of protection¹⁹⁰, once the existence of the foreign right has been proved and especially in case the foreign countries involved are also part of the international treaties harmonizing IP protection.

National practices concerning the treatment of foreign law¹⁹¹ are also relevant in this context. Application of a single law (forum law) as an alternative to the *lex loci protectionis* or the market effects rule may be reached in certain PIL systems by other means. The criterion that when the parties have failed to convincingly establish foreign law, a court should apply the law of the forum to fill any lacunae is common to many jurisdictions. Even in most jurisdictions in which the basic principle is application *ex officio* of foreign law, it is accepted that when foreign law cannot be established, the law of the forum applies. In any event, given the nature and foundations of the *lex loci protectionis* rule and the market effects principle, default application of forum law seems only appropriate to the extent that the existence of the right and the unlawfulness of the conduct have been determined under the relevant foreign law¹⁹², including international treaties establishing common standards. Default application of forum law may be especially helpful for instance to establish compensation for damages resulting from worldwide

¹⁹⁰ *Pertegás (supra, note 186)*, at 243-245.

¹⁹¹ Such practices differ significantly even within the EU. The Commission acknowledged those differences in a statement made at the adoption of the Rome II Regulation and announced the possibility to take appropriate measures if necessary.

¹⁹² *Jiménez Blanco, (supra, note 44)*, at 337-344.

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“The Private International Law of Intellectual Property and of Unfair Commercial Practices: Coherence or Divergence?”, S. Leible and A. Ohly (eds.), *Intellectual Property and Private International Law*, Tübingen, Mohr Siebeck, 2009, pp. 137-190.

infringements or conducts, however, that approach does not promote unity of result and may favour forum shopping.