

INTRODUCTION

INTELLECTUAL PROPERTY ONLINE: THE CHALLENGE OF MULTI- TERRITORIAL DISPUTES

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OVERVIEW

On October 8, 2004, a day-long symposium jointly sponsored by Brooklyn Law School's Center for the Study of International Business Law and the *Journal* brought together some of the best expertise to grapple with the formidable challenges of multi-jurisdictional intellectual property disputes. Although the phrase "intellectual property online" in the title to the symposium might, at first blush, give that impression, such disputes are by no means restricted to digital transmission of creative products; they can, and often do, arise in the world outside the digital domain.¹ The phrase does, however, highlight the fact that the digital networked environment has compounded the challenges and made them at once both more pressing and, perhaps, even intractable.

That we were able to bring together in one place such a distinguished caliber of knowledge and expertise—spanning three continents², drawing on both the Civil Law and Common Law traditions, and representing "state of the art" thinking on this subject—was largely attributable to two happy coincidences. The first is that the subject of the symposium had now become

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1. On this point, see Annette Kur, *Applicable Law: An Alternative Proposal for International Regulation*, 30 BROOK. J. INT'L L. 951 (2005).

2. The speakers brought insights and knowledge from Australia, Germany, Japan, New Zealand, Switzerland, the United Kingdom and, of course, the United States.

an important project of the American Law Institute,³ having begun life as initiatives by Professors Rochelle Dreyfuss of New York University Law School and Jane Ginsburg of Columbia University Law School,⁴ as well as collaborative work between the latter and Professor François Dessemontet of the University Lausanne.⁵ These three—two of whom were principal speakers at the symposium⁶—are now the Reporters for the ALI Project. The rest of the speakers were my fellow Advisers on that Project. Another of our speakers, Dr. Annette Kur, Head of Max-Planck Institute for Intellectual Property, Competition and Tax Law, Munich, has been working on a parallel project, which she discusses in this issue.⁷ The assembly of these eminent scholars was thus already in place before the symposium, thanks to the initiative of the Reporters as well as of the American Law Institute, and especially its Director, Professor Lance Liebman, William S. Beinecke Professor of Law at Columbia University.

That such a gathering should happen at Brooklyn Law School was due to another happy coincidence. As Professor Dreyfuss points out in her excellent account of the ALI Project in this issue, the whole “enterprise owes its origins to the 1999 Draft of the Convention on Jurisdiction in Civil and Commercial Matters, negotiated at the Hague Conference on Private International Law.”⁸ Now it so happens that in 1997, Brooklyn Law School had also held an international symposium on the proposed Hague Convention, which was published in the 1998 issue of the *Journal*.⁹ The sponsorship of the symposium by the

3. AMERICAN LAW INSTITUTE, INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES (now in its third draft).

4. See the introduction to Rochelle Dreyfuss, *The ALI Project on Transnational Intellectual Property Disputes: Why Invite Conflicts?*, 30 BROOK. J. INT'L L. 819 (2005).

5. See François Dessemontet, *A European Point of View on the ALI Principles*, 30 BROOK. J. INT'L L. 849 (2005).

6. Professor Ginsburg was unable to join them as she was away teaching at University of Cambridge.

7. See Kur, *supra* note 1.

8. Dreyfuss, *supra* note 4, at Part I.

9. See Symposium, *Enforcing Judgments Abroad: The Global Challenge*, 24 BROOK. J. INT'L L. 1 (1998). Like the present one, this, too, was co-

Center for the Study of International Business Law itself is also uniquely suited to that theme. Almost two decades ago, Brooklyn Law School keenly felt the incipient shift, then barely noticeable, from a world defined by national borders to one in which the practice of law was beginning to transcend these boundaries, and we came to the conclusion that the increasing globalization of the economy was, indeed, transforming the study and practice of law. The response to these changes was the establishment, in 1987, of the Center for the Study of International Business Law whose mission since has been to study and shape international business law and policy. In pursuit of this mission, the Center has sponsored numerous programs for a broad range of constituencies, including legal scholars and students, law firms and practitioners, corporations, investment firms, banks and other financial organizations, regulatory agencies, public interest organizations, policy makers, and the media. Through these endeavors, the Center both recognizes the strengths of the School's business law faculty and takes full advantage of its location in New York City, the epicenter not only of international finance, but also of transactions in art and other cultural property, a principal concern of intellectual property. Among the many other programs sponsored by the Center since the symposium on the proposed Hague Convention, was another international one also on the mutual interaction between the digital revolution and intellectual property,¹⁰ at which three of the speakers at the present symposium gave presentations. The present symposium can, in this respect, be seen as another stage in a kind of natural progression.

THE PROGRAM

As already mentioned, the principal focus of the present symposium is the challenge of multi-jurisdictional disputes which has been compounded by the advent of the digital networked environment. The instantaneous and simultaneous multi-territorial transmission of copyright works, trade symbols, and other intellectual property, made possible by digital networks,

sponsored by the Center for the Study of International Business Law and the *Journal*.

10. See Symposium, *Software as a Commodity: International Licensing of Intellectual Property*, 26 BROOK. J. INT'L L. 1 (2000).

has cast in sharp relief the urgent need for a comprehensive conflict of laws/private international law regime specifically devoted to intellectual property. Commercial exploitation and infringement of intellectual property have thus become truly multi-territorial. It is, nevertheless, desirable from the point of view of both potential plaintiffs and potential defendants that adjudication of claims be consolidated in a single forum. Consequently, the last few years have seen endeavors by the intellectual property community to work in earnest on international principles of jurisdiction, choice of law, and enforcement of judgments specifically tailored to intellectual property disputes. The American Law Institute's project on *Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes*, which is the principal focus of this symposium, is a major initiative in this process; we sought to enrich both that project and the symposium by consideration of alternative or parallel developments elsewhere, including specific initiatives such as that of the Max-Planck Institute which Professor Kur discusses.

The symposium papers in this issue follow the chronology of their presentation at Brooklyn Law School. That chronology was, in turn, dictated by what seemed to us like a natural logic of their content. We divided the subject of the symposium into two components with the understanding that these were to be treated not as rigid categories but as convenient indications of the flavor of each session.

The first component to which we devoted the morning session, called "Resolution Through Conflict of Laws," had its principal focus on the American Law Institute Project on *Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes*. This session opened with Professor Rochelle Dreyfuss's enlightening account of the origin, history, conceptual terrain, and latest iteration of the ALI Project. Professor Dreyfuss's paper laid the ground work for the rest of the symposium. It was followed by Professor François Dessemontet's excellent account of the European perspective on the ALI Project. This theme—of perspectives on the ALI Project from different vantage points—continued, in the second morning panel, with Professor Toshi Kono's instruc-

tive Japanese perspective,¹¹ and Professor Graeme Dinwoodie's lucid account of the common law perspective.¹²

The second component, to which we devoted the main afternoon session, could be labeled: "Resolution through Substantive Harmonization." Its distinctive emphasis was on applicable law, which is the principal orientation of the Max-Planck new Project, and opens with a paper by a principal architect of that Project, Professor Annette Kur. Dr. Kur's paper was followed by Professor Graeme Austin's and Professor Richard Garnett's papers, both of which also have a distinctly substantive law orientation: Professor Austin's paper is a scholarly analysis of copyright ownership;¹³ Professor Garnett's is an able defense of extra-territorial application of substantive national laws in cases of outright piracy.¹⁴ The closing session was a roundtable discussion by all the speakers which is not included here.

These are ongoing conversations. Both the ALI Project and parallel alternatives are works in progress. But as the papers in this issue indicate, the groundwork has been well and truly laid for progress towards resolving difficult challenges of multi-jurisdictional intellectual property disputes—challenges which are likely to increase exponentially in the years ahead.

11. See Toshiyuki Kono, *Intellectual Property Rights, Conflict of Laws and International Jurisdiction: Applicability of ALI Principles in Japan?*, 30 BROOK. J. INT'L L. 865 (2005).

12. Captured in the transcript from Dinwoodie's remarks, 30 BROOK. J. INT'L L. 885 (2005).

13. See Graeme W. Austin, *Intellectual Property Politics and the Private International Law of Copyright Ownership*, 30 BROOK. J. INT'L L. 899 (2005).

14. See Richard L. Garnett, *Trademarks and the Internet: Resolution of International IP Disputes by Unilateral Application of U.S. Laws*, 30 BROOK. J. INT'L L. 925 (2005).

THE ALI PRINCIPLES ON TRANSNATIONAL INTELLECTUAL PROPERTY DISPUTES: WHY INVITE CONFLICTS?

*Rochelle Dreyfuss**

INTRODUCTION

As those members of the innovation community who focus on procedural law know, the American Law Institute (ALI)¹ is engaged in a project to facilitate litigation of intellectual property disputes that cross national borders.² The enterprise owes its origins to the 1999 Draft of the Convention on Jurisdiction in Civil and Commercial Matters, negotiated at the Hague Conference on Private International Law.³ By now, it has undergone several iterations. Columbia University Professor Jane Ginsburg and I used the Hague material as the starting point for proposing a stand-alone convention dealing not only with the general problems of international litigation, but also with issues that uniquely arise when intangible rights are at stake.

Our work, which was first presented at a Chicago-Kent College of Law symposium in October 2001,⁴ attracted the attention of the ALI. After arranging a further presentation in April 2002, the Institute formally adopted the project as its own. It

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1. The Brooklyn Law School Symposium discussion focused on Preliminary Draft No. 3, which was made available to Symposium participants in October 2004.

2. ALI PRINCIPLES—INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES (Am. Law Inst. Preliminary Draft No. 3, Feb. 28, 2005) [hereinafter ALI Principles].

3. Preliminary Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters, *adopted on Oct. 30, 1999, at* http://www.hcch.net/upload/wop/jdgm_drafte.pdf (last visited Feb. 28, 2005) [hereinafter Draft Hague Convention].

4. Rochelle C. Dreyfuss & Jane C. Ginsburg, *Draft Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters*, 77 CHI.-KENT L. REV. 1065 (2002).

appointed us, along with François Dessemontet of the University of Lausanne (Switzerland), as co-Reporters, and an international group of intellectual property lawyers, practitioners, and judges as Advisers of the project, entitled *Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes*.⁵ Revised drafts, now cast in the form of principles that courts may follow, rather than as a convention that nations must join, were presented to the Advisers in February of 2003 and 2004 and to a special session of the ALI membership in May 2004. A new draft will be presented to the Advisers in April 2005. It will be at least a year, probably longer, before the ALI will formally consider approving the final product. In the meantime, the Reporters are interested in broad input. Accordingly, we are grateful to Professor Sam Murrumba for the valuable opportunity to discuss our work at Brooklyn Law School.

The current draft differs in many ways from the one initially unveiled in Chicago. Of particular importance, it goes beyond the issues of personal jurisdiction and enforcement of judgments—the issues that were at the heart of the Hague Convention—to cover choice of law. After explaining why a project tailored to intellectual property litigation is desirable and describing its key features, this paper discusses the decision to add principles on applicable law and the factors that were considered in making specific choices.

I. THE HAGUE CONVENTION AND ITS APPLICATION TO INTELLECTUAL PROPERTY

A convention on enforcement of foreign judgments has been in gestation at the Hague Conference for over a decade. Begun in 1992, the goal was to create an international analogue to the U.S. system of according full faith and credit to sister state judgments, and to the EU's Brussels Regulation, which establishes a regime for recognizing judgments within the European Union.⁶ That is, member states were to agree to recognize and

5. A full list of participants is available on the ALI website, at <http://www.ali.org> (last visited Feb. 28, 2005).

6. See State and Territorial Statutes and Judicial Proceedings; Full Faith and Credit, 28 U.S.C. § 1738 (2004); Council Regulation (EC) No. 44/2001 of 22 December 2000 on Jurisdiction and the Recognition and Enforcement of

enforce any judgment rendered by another member state, so long as that judgment was predicated on a basis of personal jurisdiction approved under the convention. Conversely, members were to agree to refuse to recognize or enforce judgments predicated on jurisdictional bases prohibited by the convention.⁷ Thus, the convention was to be comprised of essentially two parts: one would list the bases of jurisdiction that were approved or prohibited, the other would set out conditions of enforcement.⁸

By 1999, a draft convention was promulgated, however it quickly ran into significant opposition. To some extent, the problems were substantive: states began with very different approaches to adjudicatory authority and that made it difficult to agree on specific jurisdictional provisions.⁹ Other issues were technological: much of the drafting of the convention was completed before the advent of e-commerce. As a result, the negotiators barely considered a key source of future international disputes. Mainly, however, the issue was lack of enthusiasm. When the convention was first proposed, there was a strong perception that judgments rendered in the United States were difficult to enforce abroad, and that as a result, successful U.S. litigants were shortchanged and U.S. law was arguably under-

Judgments in Civil and Commercial Matters, 2001 O.J. (L 12) 1 [hereinafter Brussels Regulation].

7. Unlike the Brussels Regulation, which has only white (approved) bases of jurisdiction and black (prohibited) bases, the Hague plan was to leave a grey area where members could decide for themselves whether to recognize or reject a judgment.

8. Recognition and enforcement are not the same thing. For example, a judgment can be recognized for purposes of determining whether another action can be filed without being at a point where it can be enforced for, say, money damages. However, for purposes of convenience, the terms “enforced” and “enforceable” will be used to cover both concepts unless specifically noted otherwise.

9. For example, EU legislation tends to emphasize institutional considerations such as predictability and consumer protection, while U.S. case law, which looks to the due process interests of each and every litigant, yields results that are more difficult to anticipate. See Rochelle C. Dreyfuss & Jane C. Ginsburg, *Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes*, 2 COMPUTER L. REV. INT’L 33 (2003); Barbara S. Wellbery & Rufus J. Pichler, *Electronic Commerce and the Proposed Hague Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters—Putting the Cart Before the Horse?*, 5 COMPUTER UND RECHT INT’L 129 (2001).

enforced. The U.S. bar was therefore willing to engage in a trade-off. It would sacrifice certain bases of jurisdiction that were opposed abroad (such as general doing business jurisdiction and tag jurisdiction, which are viewed elsewhere as exorbitant) and in exchange, enforcement of other U.S. judgments would become a near-certainty.¹⁰ However, by the time the draft convention was promulgated, that trade-off was no longer considered desirable. Because the U.S. market had become extremely attractive to foreign capital investment, in most significant cases, foreign litigants had sufficient assets within the United States to satisfy judgments rendered against them. With less need to find internationally accepted predicates for jurisdiction, the enthusiasm within the United States for sacrificing familiar bases dissipated. And since the United States tends to enforce foreign judgments, and within the EU, the Brussels Regulation works well, there was a similar want of interest abroad.

As of this writing, the Hague Conference has suspended work on a general convention. Instead, it is taking a "bottom up" approach, which contemplates that agreements dealing with specific problems of international concern will be developed and that as experience with these is garnered, it will become easier to draft a general convention governing all private law disputes. Thus, there is now a proposal pending at the Hague for an instrument on exclusive choice of court agreements. This convention would make enforceable judgments rendered by a court chosen by business parties in a written contract.¹¹ In addition, the Hague Conference has urged practitioners and other interested parties to consider the wisdom and contours of agreements covering specific legal fields where international enforcement issues are particularly problematic.

10. See Draft Hague Convention, *supra* note 3, art. 18 (d), (f), (i). This would have been more of a sacrifice than might first meet the eye as even U.S. judgments enforced in the United States would be subject to the prohibition on tag and doing business jurisdiction if they involved litigants that were citizens of other convention states.

11. See *Draft on Exclusive Choice of Court Agreements*, Hague Conference on Private International Law, Special Commission on Jurisdiction, Recognition and Enforcement of Judgments in Civil and Commercial Matters Apr. 21-27, 2004, Work. Doc. No. 110E revised, available at http://www.ejtn.net/www/en/resources/5_1095_1181_file.409.pdf.

It can certainly be argued that intellectual property is one such field. On the copyright side, markets are now global. U.S. movies, television programs, and music have long enjoyed broad audiences abroad, and in recent years, foreign works have begun to appeal to Americans. Population shifts have produced diasporas—significant communities that consume works in one language while living in locations where another is spoken. At the same time, the Internet and other forms of digital transmissions have reduced the cost of reaching international markets and decentralized the mechanisms of distributing intellectual products. Many of these factors—along with the rise in international travel—have created a similarly global market for, and knowledge of, trademarks.¹² As to patents, the Internet is increasingly used to distribute patented software and to make offers to sell tangible embodiments of patented inventions to remote locations.¹³ There are also patents that are explicitly drawn to the online environment. Some patents include so-called “divided” claims, which contemplate activity in more than one jurisdiction.¹⁴ It is also becoming increasingly common for those investing in innovation to rely on fairly global exploitation, especially now that there are international instruments that make the acquisition of world-wide protection easier.¹⁵

12. See, e.g., William Patry, *Choice of Law and International Copyright*, 48 AM. J. COMP. L. 383 (2000) (attributing new interest in choice of law to the same set of phenomena).

13. See, e.g., *Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1368 (Fed. Cir. 2001); *Litmer v. PDQUSA.com*, 326 F. Supp. 2d 952 (N.D. Ind. 2004). See generally, Timothy R. Holbrook, *Territoriality Waning? Patent Infringement for Offering in the United States to Sell an Invention Abroad*, 37 U.C. DAVIS L. REV. 701 (2004).

14. See, e.g., *NTP, Inc. v. Research In Motion, Ltd.*, 392 F.3d 1336 (Fed. Cir. 2004) (claiming that utilization of the Blackberry infringes U.S. patent law even though networks were located in Canada).

15. The Agreement on Trade-Related Aspects of Intellectual Property Rights broadens the base of inventors who are eligible for patents in each country. See Agreement on Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, Apr. 15, 1994, Part II, § 5, Marrakesh Agreement Establishing the World Trade Organization [hereinafter WTO Agreement], Annex 1C, LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND vol. 31, 1869 U.N.T.S. 299, 33 I.L.M. 81, 93 (1994) [hereinafter TRIPS Agreement]. The Patent Cooperation Treaty and the Convention on the Grant of European Patents make it cheaper for investors to take advantage of the TRIPS opportunity. See Patent Cooperation Treaty, June 19, 1970, 28 U.S.T.

These changes put significant pressure on both the enforcement of intellectual property rights and on effective defenses against infringement claims. A single Internet transmission can simultaneously produce copyright and trademark infringements on a world-wide basis. Similarly, a business method can be practiced on a server situated in one country, at the instigation of users located in a multiplicity of other states. As a result, rights holders now find that to fully protect their interests, they must sue in more than one jurisdiction, and shoulder the attendant risks of infringements occurring in places where the defendant lacks assets, where there are insufficient contacts to support adjudicatory authority, or where the law or the pace of legal proceedings is especially disadvantageous. Indeed, the ubiquity of the Internet's infrastructure gives the users of intellectual property unprecedented ability to choose to operate from precisely such locations.¹⁶ And in some instances, servers can be artfully placed so that there is no one country where all the steps of a patent are practiced—and therefore, arguably, no infringement anywhere.¹⁷

The globalization of intellectual property activities and communications also poses problems to potential defendants. Lacking the ability to predict when they will be subject to adjudicatory authority, consumers of intellectual property act at their peril when they utilize material protected anywhere. Further-

7645, 9 I.L.M. 978; Convention on the Grant of European Patents, Oct. 5, 1973, 13 I.L.M. 268.

16. This is not meant to exclude the possibility that nonInternet cases could also require multiple enforcement efforts. For an example, see *Kabushiki Kaisha Sony Computer Entertainment Inc. v. Ball*, [2004] E.W.H.C. 1738 (Ch. 2004) (Eng.), which involved the sale from the United Kingdom to various other countries of chips circumventing technological protections to certain Sony games. Under one of the statutes in issue, only sales within the United Kingdom were regarded as actionable in the United Kingdom; sales abroad would have to be pursued elsewhere, unless foreign claims could be asserted in the English court under the Brussels Convention. Convention on Jurisdiction and the Enforcement of Judgments in Civil and Commercial Matters, Nov. 29, 1996, 1998 O.J. (C 27) 1 [hereinafter Brussels Convention].

17. See generally Mark A. Lemley et al., *Divided Infringement Claims*, Stanford Public Law Working Paper No. 100 (Dec. 1, 2004), available at <http://ssrn.com/abstract=628241> (discussing problems arising from patents written to cover modern technologies which attempt to bring the distributed acts of different users around the globe into the ambit of a territorial legal system that looks for a single infringer).

more, rights holders can use the necessity of successive actions to their advantage, to wear users down by bringing actions *seriatim*, hoping eventually to win in a big enough market to make the competitor's continuing activity everywhere unprofitable. This is a particular problem for small businesses that lack the legal and technical sophistication necessary to avoid becoming amenable to suit in foreign fora and the resources to fight multiple suits. To the extent that start-ups are especially responsible for innovation, these problems may significantly affect the public interest by chilling creativity and technological progress.¹⁸

A convention of the type originally contemplated at the Hague would solve many of these problems. The Internet has created difficult personal jurisdiction cases for all courts, and these are further complicated by the intangible nature of the rights at issue.¹⁹ Thus, it would be quite helpful to have an international agreement on which activities support the assertion of adjudicatory authority. Further, courts have taken different positions on their power to rectify and to stop (on both a permanent and temporary basis) injuries that occur outside their territories.²⁰ Clarity on that issue would thus also be welcome.

18. *See, e.g.*, *Computer Assocs. v. Altai, Inc.*, 126 F.3d 365, 369–71 (2d Cir. 1997) (successive suits for infringing trade secrets brought in the United States and France not barred by *res judicata*).

19. *See, e.g.*, *Zippo Mfg. Co. v. Zippo Dot Com, Inc.*, 952 F. Supp. 1119, 1124 (W.D. Pa. 1997) (setting out an early test for jurisdiction based on Internet transactions); *Carefirst of Maryland, Inc. v. Carefirst Pregnancy Centers, Inc.*, 334 F.3d 390, 399–400 (4th Cir. 2003) (discussing later cases). For state court cases, *see, e.g.*, *Pavlovich v. Superior Court of Santa Clara County*, 58 P.3d 2 (Cal. 2002); *Griffis v. Luban*, 646 N.W.2d 527 (Minn. 2002). For an example of a foreign court grappling with similar issues *see Dow Jones & Co. v. Gutnick*, (2002) 210 C.L.R. 575 (Austl.). *See generally* Allan R. Stein, *Personal Jurisdiction and the Internet: Seeing Due Process Through the Lens of Regulatory Precision*, 98 NW. U. L. REV. 411 (2004).

20. For example, in the United States, the single-publication rule, which requires the assertion of all claims for libel in a single action, is said to protect the interests of the media, *see Keeton v. Hustler Magazine, Inc.*, 465 U.S. 770, 777 (1984); arguably a similar rule should protect media defendants in intellectual property actions. By contrast, however, the EU bars the assertion of extraterritorial libel claims in courts that are not situated at the residence of the defendant. *See Shevill v. Presse Alliance S.A.*, [1995] 2 A.C. 18 (H.L. 1995) (Eng.). There is similar controversy over cross-border relief issues. *See, e.g.*, *Turner v. Grovit*, 1 All. E.R. 960 (H.L. 2002) (Eng.); *Grupo Mexicano de Desarrollo, S.A. v. Alliance Bond Fund, Inc.*, 527 U.S. 308 (1999); Symposium,

But even more is possible. A convention tailored to the needs of the intellectual property community could also make the adjudication of international infringements efficient. It could facilitate cooperation among courts entertaining parts of the same series of transactions or create avenues for consolidating cases, thereby saving judicial resources on a world-wide basis. It would also reduce the private cost of enforcing intellectual property rights and improve the deterrent effect of the law. At the same time, an integrated system would prevent plaintiffs from harassing lawful users, safeguard free speech interests, and assure that materials in the public domain are genuinely available for use.

Admittedly, the ALI cannot fulfill all of these goals. Because the drafters do not represent states, its provisions will not be enacted directly into law. However, as a set of principles, the project can demonstrate how national courts could be used to create an efficient method for adjudicating international disputes. Thus, the hope is that states will be inspired to return to the bargaining table, where they can use the work as a template for action. The Principles can also have an impact as “soft law.” In some cases, they could be followed by courts unilaterally or adopted through the consent of the parties—in their contract or at the time of litigation. A set of principles also creates a focus for future discussion by the intellectual property community. Indeed, it is heartening to see that similar projects are proceeding in other arenas.²¹

Copyright's Long Arm: Enforcing U.S. Copyrights Abroad, 24 LOY. L.A. ENT. L. REV. 45 (2004); John Gladstone Mills III, *A Transnational Patent Convention for the Acquisition and Enforcement of International Rights*, 84 J. PAT. & TRADEMARK OFF. SOC'Y 83, 85 (2002).

21. The International Association for the Protection of Intellectual Property [hereinafter AIPPI] has polled its membership on these issues and has adopted a Resolution proposing approaches to jurisdiction, choice of law, and enforcement of judgments that are generally consistent with the ALI Principles. See AIPPI, *Report Q174: Jurisdiction and applicable law in the case of cross-border infringement (infringing acts) of intellectual property rights*, AIPPI 2003 Y.B., at 827, available at http://www.aippi.org/reports/resolutions/Q174_E.pdf. There is also a group of intellectual property lawyers in Europe, led by the Max Planck Institute, working on an International Convention on Jurisdiction and Enforcement of Judgments, which deals with many of the same issues. Its principal author, Annette Kur, is an advisor on the ALI project.

II. THE ALI PROJECT

Given this background, the contours of the ALI project are largely predictable. After defining the areas of intellectual property law to which the Principles will apply, the issues dealt with at the Hague are addressed. First, the jurisdictional provisions specify the sort of contacts a defendant must have with a state to become amenable to suit in its courts. These provisions also delimit the scope of the court's authority to hear and act upon claims arising within and without its territory. Second, the Principles set out rules on when, and on what terms, judgments based on these bases of jurisdiction should be enforced. However, the project also departs from the Hague approach in significant ways. It includes procedures for simplifying the adjudication of world-wide disputes, providing two methods, cooperation and consolidation. Further, as described more fully in the next section, it lays out criteria for determining the law to be applied in international contexts.

A. *Scope*

The Principles apply to all intellectual property rights, including not only copyright, patents, and trademarks, but also neighboring rights, trade secrets, domain names and rights stemming from concepts of unfair competition. The notion is to cast a broad net, so that courts enjoy maximum flexibility to structure litigation in ways that encourage efficiency. However, it is recognized that drawing lines can be difficult. Accordingly, it is contemplated that early in the litigation process, the court, helped by the parties, will determine whether, and to what extent, the Principles will apply.

B. *Jurisdiction*

As is standard in American jurisprudence, the Principles distinguish between bases of general and specific jurisdiction. A third type of jurisdiction, designed to improve efficiency, has also been added. Because the ALI project sets out multiple bases of adjudicatory authority but does not establish a preference among them, it differs sharply from the 1999 Draft Hague Convention and also from European practice. However, this approach was considered necessary to achieve the project's overall goal: a multiplicity of jurisdictional predicates creates

the flexibility needed to situate each case in the court best able to provide complete justice to all the litigants. Nonetheless, it is also understood that one of the attractions of a set of Principles is that it can provide some assurance that jurisdiction will not be asserted inappropriately. Thus, the project does not opt for complete flexibility. Instead, it follows the Hague approach by defining certain bases of jurisdiction as prohibited.²²

1. General Jurisdiction

The two provisions on general jurisdiction create authority to hear all claims against a defendant no matter where they arise. Both should be familiar to American lawyers: the defendant is subject to general jurisdiction at its habitual residence (domicile) and in any court where a general appearance is made. Thus, a defendant whose habitual residence is Germany, who engages in activity in France and Germany that leads to harm in France, Germany, the United States, and Japan, can be sued in Germany for the harm claimed in all four states. A general appearance in a court of any of the other countries will similarly create jurisdiction over claims to harm everywhere.

2. Specific Jurisdiction

Unlike the general jurisdiction provisions, which are based entirely on general law, the three principles that deal with specific jurisdiction take into account the special needs of the intellectual property community.

The first provision (which in a sense lies midway between general and specific jurisdiction), expresses a position in favor of party autonomy. It makes defendants amenable to suit in any place agreed to in a choice of forum clause.²³ Some of the language in the current draft is essentially a placeholder for

22. As with the Draft Hague Convention, there is a residual grey area where every state has authority to make its own decisions on enforcement.

23. This has the flavor of general jurisdiction because the claims need not arise from the contract directly. *See, e.g.*, *Carnival Cruise Lines, Inc. v. Shute*, 499 U.S. 585 (1991) (recognizing the enforceability of a forum selection clause in a consumer contract in a torts case for negligent operation of a vessel). However, unless the contract was badly drafted, the amenability to suit would be restricted to claims arising from the relationship created by the contract containing the forum selection clause.

changes that will likely be made to conform the Principles to the choice of forum convention currently under negotiation at the Hague. However, there is also language that will not likely be conformed to the new Hague instrument because it is intended to tailor the law to intellectual property transactions. In these transactions, there is a clear need for agreements that reduce the jurisdictional exposure of distributors of digitized information, but also a concern that nonnegotiated licenses (clickwraps and shrinkwraps) will overreach and require adjudication in a forum which is burdensome to the other side (and which applies law recognizing the enforceability of choice of forum agreements²⁴).

To deal with this problem, the Principles reject the Hague's distinction between consumer and business transactions, and instead differentiate between negotiated and nonnegotiated licenses. Judgments based on forum selection clauses in all negotiated agreements are enforceable, even when individuals are involved. However, for nonnegotiated agreements, forum selection clauses will be effective only if the forum chosen is reasonable under rules set out by the Principles themselves (as distinguished from the place where enforcement of the agreement is sought). If the agreement is reasonable when judged in light of the expectations, location, sophistication, and resources of the parties, in particular the weaker party, the interests of the relevant states, the availability of online dispute resolution, and the expertise of the court chosen, the forum selection will be honored; otherwise, it will be disregarded. In the end, the hope is that the risk of losing the benefits of forum selection clauses will encourage those who draft nonnegotiated agreements to make fair choices.

A second provision covers contract actions generally (that is, claims arising from contracts that do not contain enforceable forum selection clauses). This provision gives the courts of a state whose rights are in issue adjudicatory authority over the defendant. However, the court's power is limited to local

24. Currently, courts tend to use forum law to decide whether to enforce forum selection clauses, with the result that it is difficult to predict when they will be enforced and to know whether the nondrafting party will be sufficiently protected. *See, e.g.,* *Specht v. Netscape Communications Corp.*, 306 F.3d 17 (2d Cir. 2002); *Evolution Online Sys., Inc. v. Koninklijke PTT Nederland N.V.*, 145 F.3d 505 (2d Cir. 1998).

claims. For example, a dispute over an agreement licensing world-wide trademark rights can be litigated in France, even if the defendant is not a domiciliary of France—but the only claims that can be adjudicated are those that deal with the French marks. As with forum selection clauses, this provision can be used for nonnegotiated agreements only when the contract is reasonable under criteria set out in the Principles.

The third head of specific jurisdiction involves one of the most controversial issues addressed by the Principles: jurisdiction over infringement actions. In a variation on the traditional approach in the United States, this provision creates a sliding scale, with the level of adjudicatory authority dependent on the nature of the forum state's connection with the dispute.

When the defendant has “substantially acted” in the state, the court's jurisdiction over the defendant extends to all claims of harm arising out of the defendant's in-state activity, no matter where the harm is felt. For example, a defendant who is habitually resident in Germany, who operates a server in Angola, where the plaintiff is habitually resident, and who uses that server to distribute infringing content to Portugal, Brazil, and Mozambique will be amenable to suit in Angola for all claims arising out of the activity in Angola, including claims pertaining to harm in Portugal, Brazil, and Mozambique.

When there is less connection to the state, the court's authority is more circumscribed and the ambit of the case is determined by whether the plaintiff is bringing the case in the forum where it is resident. It has, however, proved difficult to draw the line between activity that occurs as a result of the defendant's purposeful availment of the forum's benefits and activity that results from the unilateral actions of others. In the former situation, there is universal sentiment that jurisdiction is justified, whereas in the latter, there is a sense that asserting jurisdiction is inappropriate. In part, the problem is linguistic, for it is hard to describe what the defendant must be doing to be amenable to jurisdiction without involving the court in difficult determinations of intent. Various formulations have been considered, including “directing activity,” “targeting the jurisdiction,” and “endeavoring to direct.”

To a large extent, however, the problem is normative. It revolves around questions of how much responsibility actors should bear to avoid jurisdictions in which they do not wish to be sued and whether it is reasonable to require the same avoid-

ance activities of all intellectual property users, no matter their size, wealth, and degree of technological and legal sophistication. For example, it is fairly clear that a German domiciliary who runs a website in Angola in the Portuguese language, which makes available music that appeals specifically to a Portuguese audience, should be subject to jurisdiction in Brazil for harm occurring there. It is less clear that this defendant should also be subject to jurisdiction in New York where, unknown to the defendant, there is a substantial diaspora of Portuguese speakers who migrated from Madeira and who found the website on its own.

In the current draft, a conservative approach is taken. The court where the action is filed must scrutinize the defendant's activities to determine whether it is reasonable to believe it was directing the alleged infringement to the state. Since "directing" is defined as initiating or maintaining "contacts, business, or an audience ... on a regular basis," businesses with sporadic contacts will not be amenable to the court's power. Furthermore, the defendant is given an opportunity to avoid the court's authority by demonstrating that it took steps reasonable under the circumstances to avoid acting in the state. If the defendant is found to have directed infringement towards a state, then a plaintiff who is a resident of that state, may assert claims for all the harm resulting from the defendant's activity, no matter where that harm actually occurred. If the plaintiff is not a state resident, then only local harm may be asserted.

3. Jurisdiction for Simplification

The remaining two bases of jurisdiction are designed to facilitate efficient adjudication. These grounds of jurisdiction may be unfamiliar to Americans, but they are based on the Brussels Regulation and are thus known to Europeans.²⁵ The first provision would expand the authority of the court where one defendant is habitually resident to include power over other defendants who are enmeshed in the same transactions. It applies only when the other nonresident defendants have some contact with the forum state and separate adjudication of claims against the various defendants would create a risk that the par-

25. See Brussels Regulation, *supra* note 6, art. 6(1)–(2).

ties will be subject to inconsistent outcomes.²⁶ In such cases, the scope of the lawsuit extends to all harms flowing from the joint activity, no matter where it occurs. The second provision pertains to third-party actions, and allows a local defendant to add parties who are liable to the defendant for all or part of the judgment the defendant suffers. Again, the court's power extends to harm flowing from the alleged activity, no matter where it occurs.

4. Prohibited Bases of Jurisdiction

Finally, as with the Draft Hague Convention, the Principles list a series of bases that are considered inappropriate predicates for adjudicatory authority. These include jurisdiction based solely on nationality, temporary residence or presence, or service of process within the territory.

C. Subject Matter Authority

Consistent with U.S. law, the Principles draw a distinction between subject matter and personal jurisdiction. Local law supplies the rules on subject matter authority. However, to achieve efficiency, the Principles suggest that where possible under local law, and consistent with the scope of personal jurisdiction set out in the Principles, courts should extend their subject matter reach to cover all claims and counterclaims arising from the transaction that gave rise to the initial claims. Although there have been suggestions that efficiency should be *forced* on the parties by making related claims and counterclaims compulsory, the absence of well-developed doctrines of claim and issue preclusion in some parts of the world militate against that approach.

In addition, the Principles contemplate that courts will exercise their authority to hear declaratory judgment actions and to provide provisional relief. In the latter case, the Principles suggest that the court hearing the action exercise its competence to

26. *Cf.* *Expandable Grafts P'ship v. Boston Scientific, B.V.*, Court of Appeal of the Hague (1999) F.S.R. 352, ¶ 19 (consolidating cases when the defendants are part of the same group of companies). The Principles recognize three types of inconsistency: redundant liability, judgments that undermine one another, and judgments to which the parties cannot simultaneously conform their behavior.

issue any protective order necessary, including those that cross national borders. Other courts are to limit their power to issue preliminary measures to actions that affect only their own territories.

D. Simplification

As noted earlier, a key value of this project is its capacity to facilitate resolution of global disputes. The Principles offer two methods for simplifying such disputes, cooperation and consolidation, both of which draw on American and European methods of aggregation.²⁷ Both are thought to require some degree of supervision; the Principles use the *lis pendens* doctrine to choose the supervisor. Under this provision (and subject to an exception explained below), initial decisions on simplification are to be made by the court where the first of the related actions is filed (the court with “supervisory authority”). These decisions include whether to simplify, the method of simplification, and in the case of consolidation, the place of simplification. Since these decisions can be opportunities for delay, there are also provisions aimed at minimizing dilatory practices.

1. Whether

Initially, the court must decide whether the world-wide actions are closely enough connected to benefit from coordinated treatment. It is expected that such will be the case whenever two or more lawsuits in different countries arise from connected transactions.

2. How

The decision on how to simplify involves a choice between cooperation and consolidation. The Principles set out criteria for making this selection. These include such matters as whether there is a court with sufficient power over all of the litigants and enough authority to award the relief requested to make consolidation an option; whether there is a court with special expertise in the issues in contention; the impact of the decision

27. See generally 28 U.S.C. § 1404 (change of venue); Brussels Regulation, *supra* note 6, art. 27–28 (*lis pendens* and stays of related actions); Piper Aircraft Co. v. Reyno, 454 U.S. 235 (1981) (*forum non conveniens*).

on the resources of the parties; and the degree of cooperation that can be expected.

The cooperative approach is inspired by recent developments in international bankruptcy litigation, where the parties, with the aid of the courts where bankruptcy petitions are pending, develop a cooperative plan to coordinate the distribution of world-wide assets.²⁸ Although intellectual property disputes are significantly different from bankruptcy in that they are not zero-sum games, the litigants still have substantial incentives to cooperate. For example, cooperation will likely be appropriate in registered rights cases, particularly patent cases, where the laws are very different, and foreign (and in some cases, domestic) courts lack the capacity to order a patent office to act on a finding of invalidity. In such cases, litigation is best situated in each country in which rights are registered. At the same time, however, substantial benefits could be achieved if, before any trial commences, the parties agree to rely on a single examination of the inventor, choose to focus their disputes on the same embodiments of the accused device, and stipulate to the documents and practices that constitute the prior art. Although courts could still arrive at different decisions on validity or infringement, there is no real inconsistency because the laws applied are different and, in many cases, exploitation in one territory is (at least in theory) unaffected by exploitation elsewhere.²⁹

28. See, e.g., American Law Institute, TRANSNATIONAL INSOLVENCY: COOPERATION AMONG THE NAFTA COUNTRIES (2003) (attempting to develop such a method for managing bankruptcy within NAFTA countries), available at <http://www.ali.org/ali/trans-insolv.htm> (last visited Mar. 24, 2005); UNCITRAL MODEL LAW ON CROSS-BORDER INSOLVENCY WITH GUIDE TO ENACTMENT (United Nations Comm'n on Int'l Trade Law 1997), <http://www.uncitral.org/english/texts/insolven/insolvencyindex.htm>; Jay Lawrence Westbrook, *International Judicial Negotiation*, 38 TEX. INT'L L. J. 567 (2003); Frederick Tung, *Is International Bankruptcy Possible?*, 23 MICH. J. INT'L L. 31 (2001).

29. In practice this may not be so. Although the problem is not as dramatic as inconsistent judgments about whether a work can be distributed on the Internet, in fact, prohibiting the sale of patented articles in one jurisdiction can affect decisions on exploitation elsewhere because of factors such as economies in the scale of production and the demand for interoperable products.

In contrast, copyright cases involving Internet distribution may be better suited to the other approach, consolidation of all cases arising from a series of transactions in a single forum. In such cases, there are real risks that conflicting judgments will be entered—for instance, that one court will consider a transmission infringing while another court holds the same transmission noninfringing; or that more than one court will levy royalties on the identical communication.³⁰ Resources can be saved and inconsistency avoided if all cases are transferred to a single court, which can then determine how best to deal with the interests of the states involved.³¹

3. Where

If the court decides on cooperation, then it will develop a plan for adjudicating the world-wide dispute with input from the parties and the other courts involved. On the other hand, when a court decides to consolidate, then it must next select the place where the action will be heard. If the parties' contracts selected a unique forum, it will likely be chosen (subject to the usual caveat on nonnegotiated agreements). However, the goal is to situate the case in the court most closely connected to the parties and dispute, and most convenient to the witnesses. Preference is also given to a tribunal specialized in the field at issue (for example, a specialized patent court for a case involving only patent issues) and to a court in a state that belongs to the WTO and is therefore internationally accountable for its actions.

30. Two situations raising the problem of inconsistency are presented in the *Grokster* and *iCraveTV* litigation, where the defendants could easily have been exonerated in one country (for example, the Netherlands or Canada), while found liable in another (such as the United States). See *Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd.*, 380 F.3d 1154 (9th Cir.), cert. granted, 125 S. Ct. 686 (2004); *Twentieth Century Fox Film Corp. v. iCraveTV*, 53 U.S.P.Q.2d 1831 (W.D.Pa. 2000). For a case raising the potential for stacking royalties, see *Soc'y of Composers, Authors & Music Publishers of Canada v. Canadian Ass'n. of Internet Providers*, [2004] 2 S.C.R. 427 (Can.).

31. See, e.g., Graeme B. Dinwoodie, *A New Copyright Order: Why National Courts Should Create Global Norms*, 149 U. PA. L. REV. 469 (2000).

4. Dilatory Practices

It has been suggested that the coordination approach, while valuable in theory, is vulnerable in practice because it provides infringers with multiple opportunities to engage in sharp practice and to delay adjudication. The Principles deal with these concerns in several ways. The decision to coordinate adjudication must be made early in the proceedings; if a decision is made not to coordinate or no decision at all is made, then each action can proceed where initially filed. Furthermore, no court is stripped of its authority. This is clearly the case under the cooperative approach; it is also true of consolidation because once a decision to consolidate is made, other courts suspend activity—they do not dismiss. If the consolidated case does not proceed in a reasonable time, then the individual actions can go forward. In addition, there is an important exception to the *lis pendens* rule: the court where a declaratory judgment action is filed is not treated as the court with supervisory authority. Instead, an intellectual property holder can file a coercive suit that, essentially, vetoes any attempt by the defendant to use a “torpedo action” (a declaration for a finding of noninfringement or invalidity filed in a court known for delay³²) to postpone adjudication.

To put this another way, the Principles improve upon the current system because the power to transfer cases carries with it the ability to choose a court that is expert and speedy. Moreover, the system as a whole reduces sharp practices by eliminating the benefits of forum shopping. Because there are many places where defendants are subject to adjudicatory authority, there is little advantage in situating activities or bringing declaratory actions in “information havens.” By the same token, plaintiffs may not receive much benefit from suing in “information hells” because such cases are subject to transfer to a more

32. For further discussion, see Linda J. Silberman, *The Impact of Jurisdictional Rules and Recognition Practice on International Business Transactions: the U.S. Regime*, 26 HOUS. J. INT'L L. 327, 344–45 (2004); Trevor C. Hartley, *How to Abuse the Law And (Maybe) Come Out on Top: Bad-Faith Proceedings Under the Brussels Jurisdiction and Judgments Convention*, in LAW AND JUSTICE IN A MULTISTATE WORLD: ESSAYS IN HONOR OF ARTHUR T. VON MEHREN, 73–81 (James A. R. Nafziger & Symeon C. Symeonides eds., 2002).

appropriate forum. As explained more fully below, control over applicable law further reduces the effects of forum shopping.

E. Enforcement

Although one of the ultimate goals of the project is to create a platform for enforcing judgments, this section has yet to receive focused attention by the Reporters or by their Advisers. To a significant extent, the current language is a placeholder. As much as possible, it will be conformed to any instrument that the Hague succeeds in promulgating. Even more important, the American Law Institute will likely expect the Principles to agree generally with its own *Project on Recognition and Enforcement of Foreign Judgments: Analysis and Proposed Federal Statute*. This work, which was formerly entitled the International Jurisdiction and Judgments Project, has been under consideration at the ALI for several years. It sets out uniform criteria for determining the recognition and enforcement of judgments in the United States; this Project is to be readied for adoption by the Institute in May 2005.

However, a few features of the current draft will probably endure. First, the Principles give the court where enforcement is sought responsibility to act as a check on the court that rendered the judgment. Most obviously, the enforcing court cannot enforce judgments predicated on prohibited bases of jurisdiction. In addition, the enforcing court must verify that the defendant received notice of the original action; in cases where the jurisdictional predicate is a general appearance, it must also verify that the defendant indeed waived objections to personal jurisdiction; if the rendering court was chosen in a nonnegotiated contract, the issue of reasonableness must be reviewed. Further, courts are to refuse to enforce judgments rendered in conflict with the Principles' *lis pendens* provisions and with decisions the court with supervisory authority makes on cooperation or consolidation. Thus, for example, if the first action was filed in France and that court decided to consolidate the worldwide dispute in Germany, then decisions rendered by any court other than the German court should not be enforced. Although this system of second-guessing may appear destabilizing of decisions and is certainly contrary to practice in many places, it is intended to compensate for the lack of hierarchical supervision present in other adjudicatory systems.

Second, the Principles include features that recognize the special import of intellectual property values, and the impact of intellectual property rights on culture, health, and well-being. Thus, the court where enforcement is sought is given some authority to vary remedies to conform the outcome to local needs. It can refuse to enforce noncompensatory awards unknown to its own law as well as awards that are grossly excessive when judged by domestic conditions. It can also decline to order injunctive relief when safety, health or local cultural policies are at issue. In addition, the Principles recognize a general, but circumscribed, exception for judgments contrary to local public policy.

III. INVITING CONFLICTS

As noted earlier, one of the main differences between the ALI Principles on the one hand, and other enforcement regimes and initiatives (full faith and credit, the Brussels Regulation, the Hague instruments, and the ALI Project on Recognition and Enforcement of Foreign Judgments), and one of their most innovative features, is the articulation of principles on applicable law. Further, the project provides an impetus for courts to apply the principles by denying enforcement to judgments that are based on choices of law “manifestly inconsistent” with the rules set out.

The inclusion of principles on applicable law may seem remarkable at first blush. Not only are conflicts rules missing from other enforcement regimes, they are also largely absent from the international intellectual property instruments currently in force.³³ Bill Patry has suggested that the reason for their omissions may be that until recently, there were so few cases involving multistate contacts that courts were never pre-

33. Admittedly, there are a few provisions of international intellectual property law that arguably have choice-of-law overtones. Thus, the Nimmers have argued (unconvincingly) that national treatment provisions create choice of law rules on ownership. See Patry, *supra* note 12, at 413. Further, the Berne Convention refers to the “law of the country where protection is claimed.” Berne Convention for the Protection of Literary and Artistic Works, art. 5(2), Sept. 9, 1886, 828 U.N.T.S. 221, S. Treaty Doc. No. 99-27. However, it is not clear whether this means the country where infringement occurred or the country where the case is being litigated. Accordingly, if this is a choice of law rule, it is one that is very poorly drafted.

sented with a choice: “there was only the law of the forum.”³⁴ Alternatively, it may be that the paucity of global cases embedded concepts of territoriality so deeply into intellectual property jurisprudence, it was rarely evident that choices were being made.³⁵ However, as the prospect of international disputes has come to the fore, it has become increasingly clear that the situation has changed dramatically.³⁶

Thus, one of the reasons negotiations over a general convention at the Hague broke down was that Internet cases—including especially cases involving transactions in intangible works—were beginning to proliferate.³⁷ Consideration of how these disputes would fare under the Hague’s jurisdictional provisions demonstrated that there would surely be cases of overlapping adjudicatory authority. Further, it became clear that these overlaps would do more than draw litigants into tribunals far from their homes. When cases are litigated in far-flung fora, there is a real prospect that activity would be judged under law different (possibly unforeseeably different) from the law of the location at which the activity was conducted.³⁸ For example,

34. Patry, *supra* note 12, at 385.

35. Indeed, in an early presentation of the ALI Principles to the Advisers, a prominent jurist argued that there was no need for choice of law rules because the territorial principle was so obviously applicable.

36. See generally MIREILLE VAN EECHoud, CHOICE OF LAW IN COPYRIGHT AND RELATED RIGHTS: ALTERNATIVES TO LEX PROTECTIONIS (2003); Paul Edward Geller, *Conflicts of Laws in Copyright Cases: Infringement and Ownership Issues*, 51 J. COPYRIGHT SOC’Y U.S.A. 315 (2004).

37. See, e.g., *Dow Jones & Co. v. Gutnick*, (2002) 210 C.L.R. 575 (Austl.); *Young v. New Haven Advocate*, 315 F.3d 256 (4th Cir. 2002); *Revell v. Lidov*, 317 F.3d 467 (5th Cir. 2002).

38. This danger is reflected in the following question:

Regarding the Hague treaty and copyright and fair use on the Internet, what national laws would apply if I download an article, data, music or software from a European web site, to my US based computer, and make an unauthorized use, for teaching, reverse engineering, commentary, parody or some other use that would be fair use in the US, but possibly not fair use in Europe...Could I be sued in Europe for violating the European copyright laws? Would a judgment be collected against me in the USA?

E-mail from James Love, Consumer Project on Technology, to Mary Streett, U.S. Dept. of Commerce (Sept. 29, 2000), available at <http://lists.essential.org/pipermail/info-policy-notes/2000q3/000024.html>; Cherie Dawson, Note, *Creating Borders on the Internet: Free Speech, the United States, and International Jurisdiction*, 44 VA. J. INT’L L. 637, 639 (2004); Nathan Garnett, Com-

U.S. software producers began to realize that foreign use of their programs could expose their reverse engineering activities to adjudication under bodies of law that do not recognize a fair use defense.

Of course, one could hope that courts would use restraint when applying local law to foreign activity. For example, in *F. Hoffman-La Roche Ltd. v. Empagran S.A.*, the U.S. Supreme Court recently held that U.S. antitrust law cannot be interpreted to cover foreign harm suffered by foreign defendants.³⁹ Noting that the decision to apply law extraterritorially requires heightened sensitivity to comity interests, Justice Breyer stated that courts are responsible for making sure that “conflicting laws of different nations work together in harmony—a harmony particularly needed in today’s highly interdependent world.”⁴⁰

Unfortunately, not every case has a fact pattern similar to the one in *Empagran*. In that case, it was assumed that foreign and domestic injuries were independent of one another.⁴¹ International intellectual property cases are not always so easily teased apart. When the behavior in one place is necessarily intertwined with activity in another, even the highest regard for comity will produce overlapping prescriptive authority. As the Supreme Court of Canada recently noted in a case involving a transmission originating in Canada that was downloaded in the United States, “the answer lies in the making of international or bilateral agreements, not in national courts straining to find some jurisdictional infirmity in either state.”⁴² The bottom line is that without an international agreement, there are activities that will inevitably be subject to scrutiny under more than one body of law, leading to the possibility of unforeseen results, or even worse: to multiple liability;⁴³ to exposure to judgments mandating inconsistent behavior; and to the imposi-

ment, *Dow Jones & Co. v. Gutnick: Will Australia’s Long Jurisdictional Reach Chill Internet Speech World-Wide*, 13 PAC. RIM L. & POL’Y J. 61, 68 (2004).

39. *F. Hoffman-La Roche Ltd. v. Empagran S.A.*, 124 S. Ct. 2359 (2004).

40. *Id.* at 2366.

41. *Id.* at 2363–72.

42. *Soc’y of Composers, Authors & Music Publishers of Canada v. Canadian Ass’n. of Internet Providers*, [2004] 2 S.C.R. 427, 462 (Can.).

43. This was the specific problem in *SOCAN*. *See id.*

tion of one country's cultural and industrial innovation policies on another sovereign state.⁴⁴

Nor is it always the case that restraint is the right answer. As noted earlier, there are patent claims that contemplate activity in more than one location; unless the law of some nation is applied extraterritorially, these inventions could be practiced without ever incurring infringement liability.⁴⁵ Furthermore, one way to deal with the messy problem of multi-jurisdictional infringements is to bring a single case in one jurisdiction and argue that its law should control activity occurring elsewhere. For example, there have been both copyright and trademark cases in which U.S. law has been applied to foreign activity on the theory that the extraterritorial activity affected U.S. markets.⁴⁶ The result was only rough justice (since the law at the location of the activity was not consulted), but that may be better than slow and expensive justice (for example, through suits in multiple locations).

Extraterritorial applications of law have other advantages as well. Thus, it has been forcefully argued that if the rights in each intellectual product were controlled by the law of a single jurisdiction, world-wide negotiations would be vastly facilitated.⁴⁷ For instance, it would be far easier to draft a global license covering the use of a U.S. movie in all media if there were no need to be concerned with the differences between U.S. law on work for hire and foreign rules mandating employee owner-

44. *Cf. Yahoo!, Inc. v. La Ligue Contre Le Racisme et L'Antisemitisme*, 379 F.3d 1120 (9th Cir. 2004) (letting stand a French order that prohibited a U.S. Internet service provider from displaying Nazi materials on sites accessible in both France and the United States).

45. *See supra* text accompanying note 14.

46. *See, e.g., Los Angeles News Serv. v. Reuters Television Int'l, Ltd.*, 149 F.3d 987 (9th Cir. 1998); *Update Art, Inc. v. Modiin Publishing Ltd.*, 843 F.2d 67 (2d Cir. 1988) (copyright); *Sterling Drug, Inc. v. Bayer AG*, 14 F.3d 733 (2d Cir. 1994) (trademark). *See generally* Jane C. Ginsburg, *The Private International Law of Copyright in an Era of Technological Change*, 273 RECUEIL DES COURS 322-48 (1998); Jane C. Ginsburg, Comment, *Extraterritoriality and Multiterritoriality in Copyright Infringement*, 37 VA. J. INT'L L. 587 (1997). For an aptly named piece, see Nathan R. Wollman, *Maneuvering Through the Landmines of Multiterritorial Copyright Litigation: How to Avoid the Presumption Against Extraterritoriality When Attempting to Recover for the Foreign Exploitation of U.S. Copyrighted Works*, 104 W. VA. L. REV. 343 (2002).

47. *See, e.g., Patry, supra* note 12, at 427-34.

ship;⁴⁸ with a German law that bars the transfer of rights in undiscovered media;⁴⁹ or with France's elaborate moral rights doctrine.⁵⁰ Since facilitating such transactions would make information products more readily available, these arguments are not solely about the interests of rights holders and licensees. In fact, they have strong public policy overtones as well.

With these concerns in mind, this project has from its outset considered the issue of applicable law. Initially, the problem was dealt with through the back door, by making a judgment unenforceable if the law chosen was "arbitrary or unreasonable."⁵¹ However, it quickly became evident that this formulation would be unworkable. Because there has been such a paucity of debate over choice of law rules in intellectual property cases, there is little shared understanding of what should count as a reasonable choice; if the issue remained open in the enforcing court, there was sure to be extensive relitigation. The current version of the project therefore confronts the problem head-on by including provisions on applicable law.

Recent meetings of the Advisers have been partly devoted to working these rules out. As of this writing, it is fair to say that the hardest question is deciding between traditional notions of territoriality (which might enhance the appeal of the Principles for conservatively minded jurists) and a uniformity approach that would associate a work with a single nation's law (and break new ground in international intellectual property jurisprudence). As explained below, the Principles currently split the difference, depending on the practicalities of the situation; the relative advantages of adhering to, or departing from, tradition; and the national interests involved in the rule in issue.

48. The U.S. rule, found in 17 U.S.C. § 201(b), is relatively rare among domestic copyright laws.

49. § 31(4) UrhG, *available at* <http://www.iuscomp.org/gla/statutes/UrhG.htm> (1965 German Copyright Act). *See generally* Adolf Dietz, *Germany*, in *INTERNATIONAL COPYRIGHT LAW AND PRACTICE* (David Nimmer et al. eds., 2004) § 4[3][a].

50. Code de la Propriété Intellectuelle, art. L. 121-1, *available at* <http://www.unesco.org/culture/copy/copyright/france/sommaire2.html> (France's Intellectual Property Code, as last amended by the Law of June 18, 2003).

51. Dreyfuss & Ginsburg, *supra* note 4, at 1072.

A. Existence, Infringement, and Scope of Rights and Remedies

As the draft now stands, the approach to these issues is largely territorial. For economic rights, this means that each of these matters is controlled by the law of each country in which an infringement occurs. Thus, for example, French law would apply to patent infringements in France, but U.S. law would apply when the same work is infringed in the United States.

As noted earlier, there was a strong temptation to apply the law of the country most connected to the work, no matter where infringement occurred, for example, to apply French law to all of these issues when a work is created in France by French domiciliaries. Not only would this simplify transactions, it would also maximize each nation's ability to *encourage production* within its territory and *protect its creative citizens* in the manner each regards as most appropriate. The decision to follow the traditional territorial approach was based on several considerations. This rule does the least damage to the ability of each state to influence the *availability of intellectual products* within its borders. By mimicking the outcomes that would obtain when litigation is pursued state-by-state (and each court uses its own state's law), this approach is likely to make the Principles more readily accepted. Furthermore, since states lack the capacity to alter foreign registrations, the uniformity approach would be difficult to apply to questions involving the validity of registered rights. Of course, a mixed system that treats registered rights differently from other forms of intellectual property rights could have been adopted. However, it was thought that this would be problematic because many economically important works implicate multiple intellectual property regimes. Computer games, for example, may include copyright-protected animation and music, characters protected by rights of publicity, patented software, and marketing symbols that are protected by trademark law.⁵²

The Principles do, however, recognize several exceptions to territoriality. First, for noneconomic rights, the applicable law is that of the territory in which the author is habitually resident at the time the harm occurred. In a sense, this is a territorial

52. See e.g., Tom Loftus, *Stars Seek More Control Over Video Games* (Mar. 12, 2004), available at <http://msnbc.msn.com/id/4223361>.

rule because it stems from the perception that noneconomic harm occurs where the author is found. However, the result is that one nation's law applies to all violations. For instance, if a copyrighted work authored by a Frenchman were utilized, moral rights issues would be analyzed under French law, irrespective of whether the work was used in France or in the United States.⁵³

The other exceptions are more conventional departures from territoriality. Where territorial law cannot be ascertained, the law of the forum applies. More important, in cases where the dispute is closely connected to a particular law, or to a preexisting legal relationship subject to another law, the applicable law will be that of the connection or relationship. Further, when use of protected works spills over national borders, and the decision is made to consolidate adjudication, applying every state's law may become unduly burdensome. In such cases, the court can choose to simplify the dispute by utilizing the laws most closely associated with the dispute. The criteria for choosing which laws will be applied include the locus of the plaintiff's and defendant's activities.

These exceptions may not be as great a departure from tradition as may first appear. Courts usually use their own forum's law in the case of uncertainty. In practice, parties facing multiple infringements often forgo adjudication in countries that are not closely connected to their prime business activities and needs.⁵⁴ Furthermore, it is not unknown for a plaintiff to sue a defendant in its largest market, hoping that a loss of that revenue will put the defendant out of business everywhere. In effect, the law of the largest market winds up controlling availability in all markets.

The final departure from territoriality is for agreements in which the parties choose to submit all or part of their dispute to the law of a single national law. As in other areas, the Princi-

53. Traditional conflicts scholars would call this a rule of personality, see EUGENE F. SCOLES ET AL., *CONFLICT OF LAWS* § 17.83 (4th ed. 2000).

54. See, e.g., C.F. (Jm.) 41/92, *Qimron v. Shanks*, 69(iii) P.M. 10 & C.A. 2760/93, 2811/93, *Eisenman v. Qimron*, 54(3) P.D. 817, discussed in David Nimmer, *Copyright in the Dead Sea Scrolls: Authorship and Originality*, 38 HOUS. L. REV. 1, 101 (2001); Neil Wilkof, *Copyright, Moral Rights and the Choice of Law: Where Did the Dead Sea Scrolls Court Go Wrong?*, 38 HOUS. L. REV. 463, 467 (2001).

ples favor party autonomy, but nonetheless circumscribe it in a variety of ways. First, the validity and maintenance of registered rights, the existence, scope and duration of rights, and the formal requirements for recordation cannot be varied contractually. Nonnegotiated agreements are subject to the usual scrutiny for reasonableness. Finally, these agreements cannot be enforced if to do so would affect the rights of third parties.

B. Initial Ownership

In this area, the decision has been made to adopt the uniformity approach as much as possible because assigning a single owner to world-wide rights greatly simplifies negotiations. Thus, the law that is applicable to ownership of rights created pursuant to a contract or preexisting relationship is that of the contract or relationship. In most other cases, the law chosen is that of the creator's residence at the time of the work's creation. Where the law thus designated does not provide a solution, initial title is determined by the law of the place where the work is first exploited.⁵⁵

Unfortunately, there are a few situations where the territorial rule appears unavoidable. For registered rights, the law of the country of regulation usually applies because regulation is controlled by local registries. However, in cases where the work was created pursuant to a contractual relationship, the law that governs the relationship controls, on the theory that the parties can be required to petition the place of registration for a change in title if that is what the court orders them to do. The territorial approach is also used for unregistered trademark rights. These rights arise directly out of local understanding of the source of the goods and services to which the marketing symbols are attached. Thus, the law that appropriately controls these rights is the law of the country in which the symbol at issue is conveying marketing information.

55. For example, rights of publicity are not recognized in the United Kingdom. If provisions were not made for cases in which the place of the creator's residence does not supply a solution, then a U.S. advertiser could use images of Prince William without authorization. Under the Principles, however, ownership of the right of publicity would be determined by the law of the United States if the images were first exploited there.

C. Transfer of Rights

There are two issues that arise in connection with licenses and assignments. The first is “transferability”: in some cases, intellectual property rights are inalienable or only partially alienable. As a result, there is a question on whether the right can be transferred at all. For rights that are transferable, the second issue is whether the parties took the steps necessary to effect the transfer.

On the first issue, transferability, the Principles follow the territorial approach. Thus, they provide that the transferability is controlled by the law of the state whose rights are at issue. For example, a global agreement that purports to transfer “all rights in all media” made before the discovery of DVDs is not effective to give the transferee rights to exploit the work on DVDs in Germany because (as noted above) German copyright bars transfers involving undiscovered media. This is so even if the license is effective under German law to transfer rights in known media (film, for example). The license will also operate to transfer DVD rights in the same work for exploitation in the United States.

As to the question of the effectiveness of transfers, here the Principles depart from territoriality and rely on the law of the agreement.⁵⁶ Most sophisticated parties will include a choice of law clause and this will be enforceable; in its absence, transfer will be judged under the law of the country most closely connected to the work, presumptively, the assignor’s or licensor’s habitual residence. As usual, nonnegotiated agreements (other than collective bargaining agreements) are to be scrutinized for reasonableness.

56. Transfer issues may not raise significant domestic policy concerns, *see, e.g.,* Univ. of Mass. v. Robl, 2004 WL 1725418 Mass. Dist. Ct. (Aug. 2, 2004) (issue of ownership of patent rights allocated contractually does not raise a federal question). Note, however, that there is a lurking question on the law to be applied to *characterizing* a particular dispute as involving transferability or effective transfer.

D. Other Issues

There are at least two additional issues that call for further examination. The first is the use of mandatory rules.⁵⁷ Although unfamiliar to Americans, these rules are similar to public policy defenses to enforcement in that they operate as trumps. However, unlike public policy decisions, they apply *ab initio*—they go to the question of which law is used to adjudicate the case, and not to determine whether the outcome is acceptable in the place where enforcement is sought. Initially, some thought was given to barring the use of mandatory rules. However, in places that recognize them, the bar would require a departure from traditional practice and is thus not likely to be acceptable. Besides, the core territoriality principle may avoid much of the controversy because it always permits a state to apply its mandatory law to local infringements. If experience with the Principles leads to greater appreciation of the interests of other countries, the wisdom of their approaches, and the benefits of comity, then the extraterritorial application of mandatory rules will abate of its own accord.

The second under-developed issue is secondary liability. In the last few years, rights holders have begun to sue those who facilitate distribution of intellectual products, claiming that they are vicariously or contributorily liable for the infringements of users.⁵⁸ As it stands, the Principles do not break this issue out for special treatment. The theory is that since there cannot be secondary liability without primary liability, the law that governs primary liability should control. However, this rationale only goes part way to solving the problem, for once there is infringement, jurisdictions differ on the terms on which

57. See, e.g., CA Paris, 43 ch., 6 July 1989, R.I.D.A. 1990, no. 143, 329, note Françon, Clunet 1989; CA Versailles, chs. réunies, 19 Dec. 1994, R.I.D.A. 1995, no. 164, 389, note André Kéréver.

58. See, e.g., A&M Records, Inc. v. Napster, Inc., 284 F.3d 1091 (9th Cir. 2002); Metro-Goldwyn-Mayer Studios, Inc. v. Grokster, Ltd., 380 F.3d 1154 (9th Cir.), cert granted, 125 S. Ct. 686 (2004); *Kazaa Wins Dutch Ruling*, N.Y. TIMES, Dec. 20, 2003 at <http://www.nytimes.com/2003/12/20/technology/20suit.html?ex=1092196800&en=6a5d023b09dbe00e&ei=5070>. Australia is about to grapple with the same issue; see *Universal Music Australia Pty Ltd. v. Sharman License Holdings Ltd.*, (2004) FCA 183 (Federal Court of Australia); *Australian Court Sets November Trial Date for Kazaa*, 9 (BNA) ELECTRONIC COM. & L. REP. 625 (July 14, 2004).

they impose liability on third parties.⁵⁹ Of course, there is reason to think that part of the attraction of secondary liability actions is that they centralize litigation in one forum, thus eliminating the need to sue individual users in each of the countries where they are located. This project may render some of these secondary liability suits unnecessary in that the Principles envision joinder of individual users in a single action, or—at the least—coordination of separate suits against them.

CONCLUSION

The Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes are intended to take up Justice Breyer's hope that "nations work together in [the] harmony ... needed in today's highly interdependent world." They recognize, however, that in many cases, courts cannot always assume interdependency away or cope with it on a unilateral basis. More is required, from the parties involved in interstate transactions, from the courts dealing with multinational disputes, and from interdependent nations themselves.

Although considerable work has gone into the drafting of these Principles, it is important to emphasize that the project is far from over. There are two lessons to be learned from the Hague's experience with a general convention on enforcing foreign judgments. The first is that input from all segments of the domestic and international bar is critical. The problems facing copyright, trademark, and patent holders are all somewhat different, as are the issues encountered in different parts of the world. The multinational composition of the Principles' Reporters and Advisers is an effort to consider these divergent viewpoints. The second lesson is that we are only beginning to fully appreciate the issues posed by a truly global marketplace. As the issues arising in an integrated economy are better understood, so too are the issues of an integrated system of dispute resolution. The hope is that this effort will be a model for adoption. But if it only serves as a starting point for debate, it will have served an important purpose.

59. For example, the rule set out in *Metro-Goldwyn-Mayer Studios*, 380 F.3d 1154 (2004), differs from that set out in *In re Aimster Litigation*, 334 F.3d 643 (7th Cir. 2003).

A EUROPEAN POINT OF VIEW ON THE ALI PRINCIPLES—INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES

*François Dessemontet**

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I. INTRODUCTION

This Article relates to my personal views on the current status of the American Law Institute (ALI) Principles - Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes (ALI Principles or Principles).¹ The style of an oral presentation has been maintained for this Article. I will try to mirror the latest round of observations which was concluded October 8, 2004. However, a brief historical survey of the work to date will precede the exposé of the jurisdictional and choice of law provisions.

But, even before providing the historical perspective of the work so far completed, a short explanation of the origin and scope of this project must be outlined. Rochelle Dreyfuss, Professor at New York University, Jane Ginsburg, Professor at Columbia University, and I decided to join efforts to obviate the lack of any international instruments relating to jurisdiction, choice of law, and recognition of judgments within the sphere of Intellectual Property (IP) by preparing a set of principles on transborder litigation of intellectual property. Professor Ginsburg and I had previously published a common proposal for the applicable law in 1996,² while Professor Dreyfuss presented a draft in 2000 for conflicts of jurisdiction.³

The ALI's decision to entertain our project at the end of 2001 illustrated to us the considerable level of interest in this increasingly vital area of law. The ALI has been invaluable in providing us with the means of consulting with a set of distinguished advisers, half of them being from abroad, the other half being interested members of the ALI itself.

1. AMERICAN LAW INSTITUTE, INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES (Preliminary Draft No. 3, Feb. 28, 2005) (on file with the Brooklyn Journal of International Law) [hereinafter ALI PRINCIPLES]. The Brooklyn Law School Symposium discussion focused on Preliminary Draft No. 3, which was made available to Symposium participants in October 2004.

2. François Dessemontet, *Internet, le droit d'auteur et le droit international privé*, 92 REVUE SUISSE DE JURISPRUDENCE 285, 293-94 (1996).

3. Rochelle Cooper Dreyfuss, *An Alert to the Intellectual Property Bar: The Hague Judgments Convention*, 2001 ILL. L. REV. 421 (2001).

The earliest possible date for approval of the Principles would be Spring 2007, but delays are entirely conceivable.⁴ I, therefore, present only a very general outline. The Principles encompass approximately thirty-five articles, some of which are very detailed. Not all are controversial and, for the purposes of this Symposium, I will focus less on controverted issues than on the more consensual ones.⁵ I will consider the issues, as I have been asked to do, from a European point of view.

II. HISTORY

As is well known, intellectual property developed in England, France, the United States, Germany, and Russia in the nineteenth century.⁶ Those nations were, however, in commerce with each other resulting in numerous bilateral treaties on copyright or trademarks.⁷ As the number of nations involved in global commerce and trade increased in the second half of that century, two basic conventions were concluded, the Paris Convention (1883)⁸ and the Berne Convention (1886)⁹, after which there was no longer the need to have the national status of an author follow his works to another country. Instead, it sufficed that the author's and the recipient's countries acceded to the Berne Convention and, therefore, the minimal protection applied to this author, as well as the guarantee of non-discrimination or "national treatment."¹⁰ The multilateral trea-

4. Undoubtedly, in a process such as developing Principles, delays occur while attempting to reach a wide consensus within and without the ALI.

5. Some of the more controversial issues that the ALI Principles are tackling include the extent of the territoriality principle, the need for choice of law rules, and the scope of the review before recognition and enforcement of foreign judgments.

6. See J.A.L. STERLING, *WORLD COPYRIGHT LAW* 9–13 (2003).

7. *Id.* at 13, 14. These agreements aimed at protection, for example, of the English authors in Russia or of the French authors in Switzerland. See also BRAD SHERMAN & LIONEL BENTLY, *THE MAKING OF MODERN INTELLECTUAL PROPERTY LAW, THE BRITISH EXPERIENCE, 1760–1911* 111 (1999) (discussing the impact and role of bilateral treaties in general); *id.* at 117 (explaining the impact and role of the Anglo-French Treaty of 1851).

8. See Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, 25 U.S.T. 1583 [hereinafter Paris Convention].

9. See Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 25 U.S.T. 1341 [hereinafter Berne Convention].

10. *Id.* art. 5. In 1994, the TRIPS enlarged the principle of minimal protection, including most importantly patents for drugs and software, but also

ties were widely considered a great advancement over the bilateral arrangements.

It is only with the Reagan Administration and, more recently, with the George W. Bush Administration that bilateral pressures were again preferred by the United States as a tool to improve the protection of U.S. interests abroad. These Administrations believed that negotiating individually with another country makes that country more amenable to Washington's wishes and demands, as opposed to Washington's more limited ability to impose its will at an international conference composed of 150 to 200 countries. This has led directly to the U.S. State Department's insistence upon the reciprocity requirement in another ALI Draft on international jurisdiction and judgment.¹¹

Against this background, intellectual property owners must rightfully inquire whether a country-by-country piecemeal approach will not endanger the efficient protection of their assets throughout the world. Further, as this approach results in different levels of protection from one country to the next, the choice of law applicable to a given litigation will be of paramount importance.

The frequent revisions of the Paris and Berne Conventions throughout the twentieth century had allowed the minimal standards of protection and the exceptions based on public policies (e.g., fair use, educational use, etc.) to be harmonized to some extent. The harmonization movement ceased in 1967 and 1971 for the Paris Convention and Berne Convention, respectively.¹² Furthermore, as TRIPS is truly a minimalist convention, the laws of each integral country, or group of countries (as is the case with the European Union), are now diverging more

procedural measures both in court and at the border. The principle prohibiting discrimination [national treatment] was also restated. *See* Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, art. 3, 33 I.L.M. 81 (1994) [hereinafter TRIPS Agreement].

11. AMERICAN LAW INSTITUTE, INTERNATIONAL JURISDICTION AND JUDGMENTS § 7 (Preliminary Draft No. 2, May 2004) (on file with the Brooklyn Journal of International Law).

12. The 1967 amendments to the Paris Convention were completed in Stockholm. Paris Convention, *supra* note 8. And, the final amendments to the Berne Convention were accomplished in Paris. Berne Convention, *supra* note 9.

with each passing year. However, occasionally there is a conscious drive in one country to imitate the laws of another country. For example, Switzerland imitated Germany when it extended copyright duration to seventy years in 1992.¹³ The European Union soon followed the Germans and the Swiss, and the United States followed five years later.¹⁴ Mostly, however, the spontaneous adaptation of harmonious legislation by national legislatures is not to be expected for many other issues.

Under these circumstances, it is important to carefully choose the forum for litigation. The court is likely to apply the law with which it, as well as the parties' attorneys, is most familiar, which is its own law. Additionally, even if a claimant gets a positive judgment in one court, the party must still be concerned about whether this decision will be recognized in the other markets in which he claims IP rights and protections. Of course, that original judgment will not necessarily be recognized, forcing the claimant to enforce his rights in dozens of litigations in the courts of those other markets. Multiple litigation, in turn, can lead directly to conflicting findings.¹⁵

The need to enforce court decisions rendered abroad has been perceived in areas other than intellectual property. This is precisely the motivation for the Hague Conference on International Private Law (Hague Convention),¹⁶ which endeavours to parallel

13. See Federal Law on Copyright and Neighboring Rights, (1992) (Switz.), amended by Act of Dec. 16, 1994, RS 101, RO 1993 1798.

14. For the European Union law see E.C. Term of Protection Directive, Council Directive 93/98/EEC, art. 7(1), 1993 O.J. (L290); while the U.S. law extending the seventy year duration can be found at 17 U.S.C §§ 302–304 (1998). The constitutionality of that law was upheld by the Supreme Court. See *Eldred v. Ashcroft*, 57 U.S. 186 (2003).

15. For example, in the *Epilady* cases, there were inconsistent findings concerning the validity of a patent. Some European courts held the patent to be infringed, while others did not. See, e.g., *Improver Corp. v. Remington Consumer Prods. Ltd.*, [1990] F.S.R. 181 (Eng. Ch., 1989); OLG Düsseldorf, *Gerwerblicher Rechtsschutz und Urheberrecht Internationaler Teil* [GRUR International], 3 (1993), 242 (242–45); BPatG Antwerp, GRUR International, 1 (1992), 53 (53–54); BGH Antwerp, GRUR International, 6 (1992), 382 (382–86).

16. See HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW, PRELIMINARY CONVENTION ON EXCLUSIVE CHOICE OF COURT AGREEMENTS (Preliminary Draft No. 26, Dec. 2004), available at http://www.hcch.net/upload/wop/jdgm_pd26e.pdf (last visited Apr. 2, 2005) [hereinafter HAGUE PRELIMINARY CONVENTION].

the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York Convention).¹⁷ Arbitral awards regarding, for example, licensing agreements are recognized in all member countries of the New York Convention without review of the substance of the award, save for exceptions.¹⁸ However, no such mechanism exists for court decisions. Obviously, infringing parties are less likely to arbitrate than prospective licensees will be. The Hague project was extremely useful; nevertheless, it has been reduced to a draft on exclusive choice of court agreements in business transactions.¹⁹ Presently, with regard to enforcement of judgments, the ALI Principles, to a large extent, follow the approach taken from the 1999 Draft of the Hague Convention.²⁰

Currently, in the sphere of IP rights, there is no international treaty on the recognition of foreign judgments and, based on today's political landscape, there will be none in the years to come. As discussed in the next part of this Article, the ALI Principles do not attempt to remedy this problem; instead, their goals are more limited. They hope to frame the issues, provide common terminology, and guide scholars, practitioners, and legislatures as the law evolves.

17. Convention on the Recognition and Enforcement of Foreign Arbitral Awards, June 10, 1958, 21 U.S.T. 2517, 330 U.N.T.S. 38, available at <http://www.uncitral.org/english/texts/arbitration/NY-conv.htm> (last visited Apr. 2, 2005). As of November 30, 2004, the New York Convention was binding on 135 countries. *Id.*

18. *See id.* arts. 4, 5. With respect to general recognition of arbitral awards, article four of the New York Convention does not specifically grant courts the power to review their substance; additionally, Article Five lists the exceptions to this enforcement.

19. For a discussion of the history of the Hague Convention see HAGUE PRELIMINARY CONVENTION, *supra* note 16, at 6. In sections four and five of the introduction, the drafters indicate that when the Hague Convention began in 1999 it intended to address enforcement of judgments for all types of jurisdictional grounds, but by 2002 the scope had been narrowed to such core areas as jurisdiction based on choice of court agreements in business-to-business cases, submission, defendant's forum, counterclaims, trusts, physical torts, and other limited grounds. *Id.*

20. *See* ALI PRINCIPLES, *supra* note 1, § 401 (Judgments to be Recognized or Enforced).

III. ESSENTIAL FEATURES OF THE ALI PRINCIPLES

A. *Nature of the Principles*

First, this project is neither a Restatement nor a binding instrument. It aims at helping counsel and courts frame the issues of conflicts in IP cases, and to give courts in various countries a common terminology and analyses. European scholars are already aware of the considerable impact of UNIDROIT Principles for International Commercial Contracts,²¹ INCOTERMS,²² and other sources of soft law,²³ so they should be quite receptive to accepting the method of drafting Principles rather than an international convention.

Legislatures could use this set of Principles as a guide if ever they wish to grapple with composing law in this arena. The Principles should carry some weight since the ALI is an institution well recognized for promoting uniform laws within both the United States and throughout Europe. But, mainly, the preparation of the Principles is, in itself, an educational opportunity for scholars and practitioners, thus furthering the dialogue between academia and practice. Long-neglected conflict of laws and jurisdiction issues in intellectual property could thus trickle down to teaching and academic journals. Ideally, it will lead younger lawyers to raise new issues of jurisdiction and applicable law before national courts and test cases will ensue.

21. See Diane Madeline Goderre, *International Negotiations Gone Sour: Precontractual Liability Under the United Nations Sales Convention*, 66 U. CIN. L. REV. 257, 257 (1997) (arguing that when European scholars drafted the UNIDROIT principles they began to achieve a uniform set of law for international contracts); see also Paul R. Dubinsky, *Human Rights Law Meets Private Law Harmonization: The Coming Conflict*, 30 YALE J. INT'L L. 211, 218 (2005) (noting that the use of the UNIDROIT principles has increased and concluding that this reflects the desire of private parties to incorporate "soft-law" into their agreements).

22. See William Tetley, *Uniformity of International Private Maritime Law—The Pros, Cons, and Alternatives to International Conventions—How to Adopt an International Convention*, 24 TUL. MAR. L.J. 775, 785 (2000) (stressing that the use of INCOTERMS as a common language promotes "internationality").

23. See Sandeep Gopalan, *The Creation of International Commercial Law: Sovereignty Felled?*, 5 SAN DIEGO INT'L L.J. 267, 310 (2004) (describing the growth of "soft-law" through the use of the UNIDROIT principles).

Thus, the very first section of the Principles provides that a court having to adjudicate a transnational dispute of intellectual property shall determine, upon request by a party, whether the case comes within the Principles.²⁴ If the court so determines, it shall declare the Principles applicable. A court may also declare the Principles applicable *sua sponte*, if that is consistent with its authority under forum law.²⁵ The ALI envisaged that the Principles will supplement the loopholes and obscurities of existing rules, if any, rather than replace national rules of conflicts applicable in the court. If the national law already provides a clear answer to any specific conflict, there will be no need to resort to the Principles. Such is not the case in most countries of the world, including European countries.

B. Scope of the Principles

The Principles cover the most important fields of intellectual property: copyright, neighbouring rights (broadcasters, phonogram producers and performers), trademarks, patents for inventors, trade secrets, trademarks, domain names, other intellectual property rights, and rights stemming from enforcement of unfair competition claims.²⁶ Thus, it is readily apparent that copyright is not the only subject matter of the Principles.²⁷

No precondition is attached to the use of the Principles, in the sense that they could be applicable only to the relationship between any two, or several countries, or of a given group of countries. Subject to further consideration, the Reporters have now decided to take into consideration the fact that almost 150 countries are members of TRIPS, and more will accede in the future. Thus, the Reporters conceded giving up any linkage

24. ALI PRINCIPLES, *supra* note 1, § 101(2).

25. *Id.*

26. *Id.* § 101(1). Other intellectual property rights include generic protection for databases and the protection of the right of publicity. Moreover, as the contents of “intellectual property” evolve and receive international recognition, the Principles should be sufficiently open-ended to encompass them. *Id.* § 101, cmt. d.

27. The International Association for the Protection of Industrial Property has also stressed the need for uniform solutions in industrial property in its Lucerne 2003 Q174 resolution bearing on jurisdiction and applicable law in the case of cross-border infringement of intellectual property rights. *See Jurisdiction and applicable law in the case of cross-border infringement (infringing acts) of intellectual property rights*, AIPPI YEARBOOK 2003/I, 827–29.

between the Principles and TRIPS. Originally, there were two regards for which a link was foreseen between the Principles and TRIPS. First, consolidation of proceedings could only take place in a country which is a member of the WTO and a party to TRIPS; but that requirement is no longer an element of the Principles. Second, the Principles now state that the factors to take into account in choosing which law or laws to apply in the exceptional case where territoriality gives no answer should not include the desirability of a national regulation as is evidenced by TRIPS. In other words, in deciding choice of law the court need not consider whether the given national law conforms to TRIPS.

From a European perspective, there are strong objections to any linkage between TRIPS and the ALI Principles, as rules on conflicts should be neutral. European scholars generally do not approve of any form of “better-law approach.”²⁸

C. Jurisdiction and Choice of Forum

Defendant’s forum is the natural forum.²⁹ However, parties may wish to enter into an agreement pertaining to jurisdiction. As to the forum, they can do it in writing, or by any other means of communication, which renders information accessible so as to be usable for subsequent reference. Usage between the parties and trade usage can also make an agreement valid. This is particularly true in European practice, especially in arbitration matters.³⁰ Additionally, the Principles include a reference to the law of the forum to decide whether the agreement on jurisdiction is valid as to the substance.³¹

28. In the United States “better-law-approach,” the judge tries to establish a tie between a *concrete* situation and the “better law” that *in casu* gives the best solution. *See, e.g.*, LUTHER L. McDOUGAL ET AL., AMERICAN CONFLICT LAW § 98 (5th ed. 2001).

29. *See, e.g.*, ALI PRINCIPLES, *supra* note 1, § 201(1) (“A defendant may be sued in the courts of the State where that defendant is habitually resident.”).

30. *See, e.g.*, International Chamber of Commerce Rules of Arbitration, Jan. 1, 1998, art. 17(2), 36 I.L.M. 1604 (1997), but a reference to “usages” has also been accepted in the universal Vienna Convention on the International Sales of Goods, Apr. 10, 1980, art. 8(3), 19 I.L.M. 668, 673. This is equally true in U.S. states which have adopted the Uniform Commercial Code. *See* U.C.C. § 2-202(a) (Final Written Expression; Parol or Extrinsic Evidence).

31. ALI PRINCIPLES, *supra* note 1, § 202(3).

Non-negotiated agreements also have safeguards under the ALI Provisions.³² The overall test is *reasonableness*, and the court will have to take into consideration the interests of the parties as well as the interests of all the States concerned, the availability of online dispute resolution, whether the terms of the agreement were sufficiently legible or accessible and, finally, whether the designated forum has been established by the State to foster expertise in adjudicating disputes. Approximately 800,000 internet-related cases appear to have been adjudicated online, mostly small claims deriving from orders lodged on the internet.³³ But, those consumer cases almost never concern intellectual property. A workable solution for IP litigation between producers, or producers and commerce, is still needed.

The general idea of the ALI Principles is to concentrate IP litigation in a few courts by the agreement of the parties so as to expedite litigation while developing the most competent judges. Of course, in Europe at present, some scholars voice the fear that U.S. courts will often be designated because of their experience and expertise. Some South countries could be upset.³⁴ However, the ALI Principles do not pursue the concentration of IP litigation in only one State. Rather, they purport to let the marketplace dictate where this concentration should lie in the global village, inasmuch as the parties wish it and provide for it.

32. *Id.* § 202(4). Non-negotiated contracts are also commonly known as “adhesion” contracts. With respect to non-negotiated contracts, the Principles posit that the agreement will be in some form of writing, and will be both consultable and comprehensible by the non-drafting party. Thus, in order for a choice of court agreement to be valid for non-negotiated contracts, the terms of the agreement must be sufficiently apparent with respect to accessibility, typographic readability, and national language so as not to cause surprise. *Id.* § 202(4)(a)(iv).

33. For a discussion of online adjudication and the effect of the internet on alternative dispute resolutions, see Robert J. Howe, *The Impact of the Internet on the Practice of Law: Death Spiral or Never-Ending Work?*, 8 VA. J. L. & TECH. 5, 29–33 (2003).

34. South countries, or developing countries, may become upset because only a few cases should be brought before their courts as their jurisdictions are not very efficient.

D. Consolidation of Several Parallel Lawsuits

Another key component of the Principles focuses on consolidation of territorial claims before one court, even in the absence of an agreement by the parties. Such consolidation will be decided, upon the motion of a party or *sua sponte*, by the court first seized.³⁵ However, there is an exception for a declaratory action for non-infringement or invalidity of the IP rights because the Principles do not favor *lis pendens* effect when alleged infringers take this preemptive step.

The conditions necessary for consolidating actions are numerous. First, the court must have personal jurisdiction over the litigants.³⁶ It may obtain personal jurisdiction based upon residence of one or several parties in the forum, by agreement, or based upon a wrong committed in that forum.³⁷ In addition, the consolidating court shall enjoy subject matter authority. But, failure to attain personal jurisdiction over at least one of the parties denies the court the ability to consider consolidation.³⁸ Moreover, the law of the forum must also allow for consolidation.³⁹

Second, the actions to be consolidated must be related, i.e., the claims are to arise out of the same transaction or series of transactions or occurrences.⁴⁰

Third, if there are only two litigants, the court should consider as its main test whether consolidating would promote efficiency and conserve both judicial resources and the resources of the parties.⁴¹ Although not the only test, efficiency is of great significance. However, this test is not currently mentioned in the case of multiple litigants. Alternatively, if there are multiple litigants over whom there exists personal jurisdiction, one of the tests should be whether inconsistent judgments could result if multiple courts adjudicated the related claims. The other test should be efficiency.

35. ALI PRINCIPLES, *supra* note 1, § 222(1).

36. *See id.*, part II, §§ 201–208 (Jurisdiction).

37. *Id.*

38. *Id.* § 211, cmt. b.

39. *Id.* §§ 221, 323.

40. *Id.* § 222(1)(f).

41. *Id.* § 222(1)(a), (b), (d), (e), (g), (h).

Once the decision to consolidate in principle has been taken, the next question to consider is which court should take the case. The Principles support a multifold test. The following questions must be considered: Where does the center of gravity of the litigation lie? Does the court have jurisdiction over as many parties as other courts? Can the court adjudicate all the territorial rights at issue? What is the difficulty of managing the litigation if consolidated? Should the court consolidating consider novel or complex questions of foreign law? And, do procedural rules allow the consolidating court to decide the factual issues involved in the case?⁴² Furthermore, in cases based upon a contractual relationship, a series of further tests apply such as the possible forum selection clause and the residence of the parties.

No consolidation is needed if defendants are jointly and severally liable because one of them can be sued for all the damages wherever it occurred. As to consolidation, the group of companies⁴³ doctrine is not mandated by the Principles, although it is familiar to French practitioners.

Next, we will turn to the conflict of laws issue. Of course, it is closely related to consolidation. Therefore, the Principles allow, for example, a court to disregard the principle of territoriality, and the ensuing application of many laws, if it is unduly burdensome to decide on the basis of all the laws of the territories involved.⁴⁴ This will often occur in consolidation cases.

IV. APPLICABLE LAW

A. *Traditional Rules*

Generally speaking, the territoriality of intellectual property rights precludes the conflict of law issues to arise at all, if not the conflicts of interests and policies.⁴⁵ This rule applies to the existence of the rights and the defenses, as well as injunctive

42. *Id.* § 222(4).

43. *See, e.g.*, P. Reymond, *Les groupes de sociétés dans quelques systèmes nationaux: regard particulier sur le droit à l'information, Aspects de droit comparé et de droit international privé*, ASPECTS DU DROIT INTERNATIONAL PRIVÉ DES SOCIÉTÉS, JOURNÉE SUISSE DE DROIT INTERNATIONAL 8 (1995) (providing a short description of French doctrine about groups of companies).

44. ALI PRINCIPLES, *supra* note 1, § 302(1)(c).

45. *Id.* § 301(1).

relief and other remedies. The ALI Principles have been premised up to now on the *impacted market* test,⁴⁶ but this may change in the future. There are, however, two areas where the territoriality principle is of no relevance.

The first area in which the principle of territoriality is not useful involves rights which are not registered because it is too difficult for the right to be ascribed a definite location. Examples of IP rights which often suffer from this problem include: unregistered copyrights, trade secrets, right of publicity, rights or factual situations protected under unfair competition law, and protection of unregistered designs. It might be argued that these areas may still be subject to territoriality, in the sense that claims under those rights will be subject to the law of the country for which protection is sought. From a European viewpoint, although the national traditions may differ in practice, the principle of the country of origin (*Cassis de Dijon* Principle)⁴⁷ might be found applicable.⁴⁸

The only question is whether it is truly feasible for these new rights (as opposed to patents, trademarks, registered designs,

46. *Id.* § 301(2).

47. Case 120/78, *Rewe-Zentral AG v. Bundesmonopolverwaltung Fur Branntwein (Cassis de Dijon)*, [1979] E.C.R. 649. Under the *Cassis de Dijon* principle, any product lawfully produced and marketed in one Member State of the European Union must be admitted to the market of any other Member State. The territoriality principle is the first and foremost rule of conflict in IP matters. However, in matters of unregistered rights, the question of the applicable law to the infringement of an IP right is controverted: for some scholars, the law of the country of origin (e.g., the country where the work was originally published) should govern the content of the IP rights wherever the infringement occurred (universality principle). For further developments on the universality principle see HAIMO SCHACK, *URHEBER- UND URHEBERVERTRAGSRECHT* 356 (2d ed. 2001). This novel point of view is not taken into consideration in the ALI Project, which may be seen as narrowly conservative in this respect.

48. See Case C-3/91, *Exportur SA v. LOR SA and Confiserie du Tech SA*, [1992] E.C.R. I-5529 (The court held that the protection of geographical names extends to names commonly known as indications of provenance, used for products which cannot be shown to derive a particular flavour from the land and to have been produced in accordance with quality requirements and manufacturing standards laid down by an act of public authority. Such names may enjoy, as do designations of origin, a high reputation among consumers and constitute for producers established in the places to which they refer an essential means of attracting customers and are therefore entitled to protection.).

plant varieties and chips [semi-conductor]) to be subject to very diverse laws. For the moment, the ALI Principles direct the IP owners to find protection under each territory's law and precedents precisely because those rights are not always protected under an international convention or have only a minimal protection as exists, for example, for trade secrets under Article 39 TRIPS.⁴⁹

The second arena where territoriality has no relevance involves those IP rights in which ownership is better regulated in a centralized manner. Most recent endeavours to determine who is entitled to claim ownership of a copyright or a patent lead to the application of the law of origin of the work (recent Greek law) or the law of the employee relationship. For example, under the Munich Convention on Patents,⁵⁰ in employee-employer cases, the law to apply is the law of the place where the employee is mainly employed, or, if it cannot be determined, the law to be applied shall be that of the State in which the employer has its place of business to which the employee is attached.⁵¹ It is along those lines that IP ownership is regulated in the ALI Principles.⁵² However, a much-disputed provision on

49. TRIPS Agreement, *supra* note 10, art. 39. Article 39 states:

1. In the course of ensuring effective protection against unfair competition as provided in Article 10*bis* of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2....

2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information: (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; (b) has commercial value because it is secret; and (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.

Id.

50. Munich Convention on the Grant of European Patents, Oct. 5, 1973, 1065 U.N.T.S. 255, 13 I.L.M. 270.

51. *Id.* art. 60(1).

52. ALI PRINCIPLES, *supra* note 1, § 302(1)(b).

transferability of IP rights refers back to territoriality.⁵³ In Europe, we think it is a setback to fragment the entitlement to a given IP right under several municipal laws, which is the basis for valid assignments or licenses throughout the world.

B. Internet, Global Village, and Territoriality

A new concern has emerged that the internet will change the paradigm of conflict of laws. No localization is meaningful when a given content can be downloaded in hundreds of jurisdictions. The answer is not to consider uplink as determinative because that makes it too easy for infringers to go to a copyright or IP heaven. Instead, the infringement happens where the market is impacted. A *substantial impact* must be the test, not an intentional targeting. There may be several countries where infringement takes place. However, these problems can be alleviated with some preemptive measures such as installation of a filter, or refusal to sell to clients from a given country or countries which would preclude the risk of liability for infringement on the IP rights in these countries. The balance of interests is to be found between e-business and content providers, allowing e-businesses, on the one hand, to target some markets, but making them accountable, on the other hand, for infringement occurring in the markets from which they derive their benefits.

V. CONCLUSION

The first reactions to the ALI project have been surprisingly positive, particularly in the United States. In Europe, some criticism has been raised about the potential concentration of power that would fall to the jurisdiction of the U.S. courts. Criticism has also been voiced about the application of U.S. law on the issue of ownership, specifically work for hire, which would benefit American cultural industry. These concerns are largely unfounded and can be easily alleviated by understanding the objectives of the Principles. One way these fears should be quelled is by understanding that consolidation of all litigation outside the U.S. courts is possible. Additionally, although beyond the scope of this short Article, another way to assuage

53. *Id.* § 314 (“The transferability of rights is determined by the law of each State for which the rights are exercised.”).

these concerns is to remind critics that the Principles allow for the refusal of enforcement of U.S. judgments abroad if they are contrary to local public policies.

INTELLECTUAL PROPERTY RIGHTS, CONFLICT OF LAWS AND INTERNATIONAL JURISDICTION: APPLICABILITY OF ALI PRINCIPLES IN JAPAN?

*Toshiyuki Kono**

I. INTRODUCTION

The American Legal Institute's (ALI) recent project, *Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes* (ALI Principles),¹ provides an important jumping-off point in the discourse on the need for private international law on intellectual property rights (IPR). This paper will consider the applicability of the ALI Principles to the Japanese legal system, specifically whether these principles could, or should, be successfully adopted by Japanese Courts.

Japan, as a civil law country, rules primarily by statute.² Both the Japanese Code of Civil Procedure (Code or Civil Procedure Code) and the Code of Private International Law (Hōrei), Japan's choice of law statute, have been heavily influenced by German law and legal theories.³ Moreover, the Civil Procedure Code contains only one provision dealing with inter-

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1. AMERICAN LAW INSTITUTE, *INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES* (Preliminary Draft No. 2, 2004) [hereinafter ALI PRINCIPLES]. The Brooklyn Law School Symposium focused on Preliminary Draft No. 3, which was made available to the participants in October 2004.

2. See generally Zentaro Kitagawa, *Theory Perception—One Aspect of the Development of Japanese Civil Law Science* (Ronald E. Lee trans.), in *JAPANESE LAW AND LEGAL THEORY 3* (Koichiro Fujikura ed., 1996).

3. Kohji Tanabe, *The Process of Litigation: An Experiment with the Adversary System*, in *LAW IN JAPAN* (von Mehren ed., 1963), reprinted in *THE JAPANESE LEGAL SYSTEM: INTRODUCTORY CASES AND MATERIALS 506* (Hideo Tanaka ed., 1976); *BASIC JAPANESE LAWS 443* (Hiroshi Oda et al. eds., 1997).

national civil procedure matters,⁴ and the Code of Private International Law, currently undergoing reform, contains only thirty-four provisions.⁵ Therefore, case law plays a very important role in these fields, as judicial interpretation of these provisions is necessary for a full explication of the law. For example, the Japanese Supreme Court (Supreme Court) recently rendered important interpretative judgments in the fields of international jurisdiction and IPR. Thus, there is good reason to consider the applicability of the ALI Principles, which are designed to be applied by national courts in various countries, in the Japanese system.

II. INTERNATIONAL JURISDICTION OF JAPANESE COURTS AND IPR

A. *International Jurisdiction Generally*

The Japanese Supreme Court clarified its position on international jurisdiction on October 16, 1981 in *Goto v. Malaysian Airline System (Malaysian Airline Case)*.⁶ In that case, a Japanese national died in a plane crash in Malaysia. The Court relied on the fact that the defendant airline had an office in Tokyo to confirm that Japanese courts had jurisdiction over the dispute under the venue provisions of Article Four of the Code.⁷ Article Four at this time provided for jurisdiction wherever the defendant had an establishment.⁸ According to the Court, Japan's international jurisdiction should be determined in accordance with *Jori*, which can be translated as "fairness" or "justice" in English. Thus, the Court created a two-step process for determining whether it had jurisdiction over international disputes, relying on both concepts of fairness, inherent in *Jori*, and the Code. This judgment has been criticized, however, since the

4. MINSOHŌ [Japanese Code of Civil Procedure], art. 118 (1996) [hereinafter MINSOHŌ].

5. *See generally* Hōrei [Act on the Application of Laws], Law No. 10 of 1898 [hereinafter Hōrei, reprinted in BASIC JAPANESE LAWS 446 (Hiroshi Oda et al. eds., 1997)].

6. *See generally* *Goto v. Malaysian Airline System*, 35 MINSHŪ 1224 (Sup. Ct., Oct. 16, 1981) (Japan), 26 JAPANESE ANN. OF INT'L L. 122 (1983) (unofficial English translation) (clarifying the Supreme Court's position on international jurisdiction).

7. *See id.* at 123–24.

8. *See id.*

Court did not pay attention to the relationship between the case and the forum; the victim purchased his ticket in Malaysia and the office in Tokyo had nothing to do with the transportation contract.

Since this two-step *Jori*-Code approach was inflexible, some inferior courts added another step, the so-called “special circumstances test.”⁹ When special circumstances exist, such that the exercise of jurisdiction by Japanese courts would hamper fairness between parties and hinder the ability of the parties to receive a speedy and fair trial, jurisdiction could be denied. The Supreme Court adopted the “special circumstances” test on November 11, 1997 in *Family Co. Ltd. v. Miyahara*.¹⁰ Thus, Japan’s highest court has established a three-step framework to determine whether it has jurisdiction over a dispute: (1) *Jori*; (2) provisions of the Code; (3) the special circumstances test.¹¹

The *Miyahara* decision, and the framework it established, however, was somewhat ambiguous. The Court failed to specify to which provision of the Code it was referring. In other words, the Court skipped the second step of the analysis. Because *Jori* itself is such an illusory concept, it appears that Japanese courts, in skipping the second step, are relying on only one instrument to create a jurisdictional rule, i.e., the special circumstances test. Since courts have yet to create clear criteria for which elements should be taken into consideration when examining special circumstances, the Court’s ambiguity in creating this three-step analysis could lead to unpredictable results.

B. International Jurisdiction for IPR Disputes and Japanese Case Law

The next question is whether Japanese case law on international jurisdiction is applicable in IPR disputes. Until very recently, Japanese courts did not have the opportunity to make known their stance on international jurisdiction over the infringement of foreign IPR or injunctions. Although the Tokyo District Court could have stated a position on international ju-

9. See generally *Family Corp. v. Shin Miyahara*, 51 MINSHU 4055 (Sup. Ct., Nov. 11, 1997) (Japan), 41 JAPANESE ANN. OF INT’L L. 117 (1998) (unofficial English translation) (adopting the special circumstances test).

10. See generally *id.*

11. See *id.* at 118–19.

jurisdiction in *Nihonmusen Tsushin v. Matsushita Electric*, a Manchurian patent dispute, the Court instead stressed the territorial character of patent law and simply stated that Manchurian patent rights were not protected under Japanese law.¹²

The Supreme Court's decision in *Fujimoto v. Neuron Co. Ltd. (Card Reader Case)* on September 26, 2002, is more illuminating.¹³ The main issues before the Court were which laws applied to the infringement of a U.S. patent and whether the Court had the authority to issue an injunction halting the plaintiff's production in Japan.¹⁴ However, this decision is still important for our discussion because the Supreme Court did not dismiss the plaintiff's U.S. patent claim, even though it could have held that U.S. courts have exclusive jurisdiction over U.S. patent disputes because of the territorial nature of patents.

In addition, some inferior courts have applied the three-step jurisdiction test in IPR-related cases, such as the Tokyo District Court in both *Ueno Fine Chemical Industry v. The Pharmacia K.K. et al.*, on May 14, 2001¹⁵ and *Yokoyama v. Entercolor Technology Corporation (Ironman Case)* on November 18, 2002.¹⁶ In

12. See generally *Nihonmusen Tsushin v. Matsushita Electric*, 4 KA MINSHŪ 847 (Tokyo Dist. Ct., June 12, 1953). In 1935, X (Japanese corporation, plaintiff) bought a Japanese patent from A and registered it in 1936. In the same year, X sought to register the patent in Manchuria; it was registered in 1937. B (Japanese corporation) was licensed to use X's Japanese patent and the license was registered in 1937. Z manufactured radios, using B's products, and exported them to Manchuria. X sued Z for damages, arguing that Z infringed on X's Manchurian patent. The Court did not mention jurisdiction and applied Art. 11, para. 2 of the Code of Private International Law (Hōrei), which requires courts to cumulatively apply Japanese law. See generally *id.* (facts of case simplified by author).

13. See generally *Fujimoto v. Neuron Corp. (Card Reader Case)*, 56 MINSHŪ 1551 (Sup. Ct., Sept. 26, 2002) (Japan), 46 JAPANESE ANN. OF INT'L L. 168 (2003) (unofficial English translation) [hereinafter *Card Reader Case*].

14. See *id.* at 168–69.

15. See generally *Ueno Fine Chemical Industry v. The Pharmacia K.K.*, 1080 HANREI TAIMUZU 208 (Tokyo Dist. Ct., May 14, 2001) [hereinafter *Ueno Fine Chemicals Case*]. The plaintiff, a Japanese pharmaceutical company, sued a Swedish company and its Japanese subsidiary, asserting that these two companies infringed on its Japanese patent. The Tokyo District Court, referring to this three-step test, claimed that it lacked jurisdiction to hear the case because plaintiff did not plead that defendants conducted the tortious act in Japan. See generally *id.*

16. See generally *Yokoyama v. Entercolor Technology Corp. (Ironman Case)*, 1812 HANREI JIHŌ 139 (Tokyo Dist. Ct., Nov. 18, 2002), 46 JAPANESE

both cases, the Tokyo District Court held that it lacked jurisdiction.¹⁷ However, it became clear that the three-step test will still be used to determine if Japanese courts have jurisdiction in IPR cases. The ALI Principles could be compatible with this three-step test, but such compatibility could be affirmed only by examining each Principle, which is what the following sections do. In any event, an application of the ALI Principles using the facts of these two cases would lead to the same conclusions as those reached by the Tokyo District Court because the claims of these plaintiffs are rather abusive and Japan does not seem to be the appropriate forum.

C. ALI Principles on International Jurisdiction and Japanese Case Law

1. ALI Principle Section 201: Defendant's Forum¹⁸

Article Four of the Code states that the general forum for defendants is either an individual's domicile¹⁹ or, for entities, their principal place of business.²⁰ In the *Malaysian Airline Case*, the

ANN. OF INT'L L. 186 (2003) (unofficial English translation) [hereinafter Ironman Case]. The plaintiff, Japanese copyright holder of "Iron man," sued the defendant, who was producing t-shirts in the United States, for injunctive relief and compensatory damages based on the infringement of the plaintiff's U.S. copyright. The Tokyo District Court dismissed the claim because the tort occurred in the United States. *See id.* at 186–87.

17. *See Ueno Fine Chemicals Case*, *supra* note 15; *Ironman Case*, *supra* note 16, at 190.

18. ALI PRINCIPLES, *supra* note 1, § 201. The current version of the provision reads as follows:

(1) A defendant may be sued in the courts of the State where that defendant is habitually resident.

(2) For the purpose of these Principles, an entity or person other than a natural person shall be considered to be habitually resident in the State -

(a) where it has its statutory seat,

(b) under whose law it was incorporated or formed,

(c) where it has its central administration, or

(d) where it has its principal place of business.

Id.

19. MINSOHŌ, *supra* note 4, art. 4, para. 2.

20. *Id.* art. 4, para. 4.

Court adopted this provision of the Code as part of *Jori*. Strictly speaking, the terms “domicile” in the Code and “habitual residence,” the language adopted by the ALI Principles,²¹ encompass two different legal notions. The interpretation of “domicile,” as used in the Code for domestic cases could, however, be modified to apply to international cases as well. Interpretation of the Code would then be very similar to Section 201 of the ALI Principles.

A recent judgment by the Tokyo District Court in *Coral Co. Ltd. v. Marin Bio Co. Ltd. (Coral Powder Case)*, adopted such a usage of the ALI Principles.²² The Court’s decision could be interpreted as an acceptance of Sections 201 and 223(1), which allow parties to seek a declaration of rights in the same action in which they seek substantive relief.²³ In this U.S. patent case, both the plaintiff and defendant were Japanese corporations. The plaintiff, a manufacturer of coral powder products, sold in both the Japanese and American markets; meanwhile, the defendant, the U.S. patent holder of an invention on the production of coral powder, warned the plaintiff’s American client that plaintiff’s products infringed its U.S. patent.²⁴ The plaintiff sought, inter alia, a negative declaratory judgment that the plaintiff’s sale of the coral powder product could not be enjoined. The plaintiff asserted that its products did not fall within the scope of the defendant’s U.S. patent, that the U.S. patent was not valid, and that the sale of the product did not infringe the defendant’s U.S. patent.²⁵ The issue was whether Japanese courts had international jurisdiction over negative declaratory judgments.²⁶ The Court rejected the defendant’s argument that Japanese courts should not exercise jurisdiction over U.S. patent cases and held that, while territoriality might be considered in determining the applicable law for injunctive relief, it could

21. ALI PRINCIPLES, *supra* note 1, § 201.

22. *See generally* Coral Corp. v. Marin Bio Corp. (Coral Powder Case), 1151 HANREI TAIMUZU 109 (Tokyo Dist. Ct., Oct. 26, 2003) [hereinafter Coral Powder Case].

23. ALI PRINCIPLES, *supra* note 1, § 223(1) (“Actions for a declaration of rights may be brought on the same terms as an action seeking substantive relief.”).

24. *See* Coral Powder Case, *supra* note 22.

25. *See id.*

26. *See id.*

not be used to deny jurisdiction.²⁷ In applying the *Jori* special circumstances test, the Court stated that the Japanese court has jurisdiction since the defendant has its principal place of business in Japan, which justifies the exercise of jurisdiction of Japanese courts over any kind of claim against the defendant.²⁸ No special circumstances existed in the case. Applying Section 201 of the ALI Principles would lead to the same conclusion.

2. Section 204: Infringement Actions²⁹

The next question is whether the ALI Principles' rules on infringement actions are transferable to Japanese courts. Section 204(1)(a) emphasizes "acts" instead of "effects."³⁰ In Japan, tort actions are generally recognized as providing a jurisdictional basis for domestic cases;³¹ this tortious ground for jurisdiction becomes part of *Jori* when courts determine jurisdiction in international disputes. Japanese courts have jurisdiction in both the place where the tortious acts occurred and the place where the effects of the acts were felt.³² Thus, courts may find Section 204 of the ALI Principles too restrictive because it focuses only

27. *See id.*

28. *See id.*; MINSOHŌ, *supra* note 4, art. 4, para. 4.

29. ALI PRINCIPLES, *supra* note 1, § 204. The current version of the provision reads as follows:

(1) A plaintiff may bring an infringement action in the courts of –

(a) any State where defendant substantially acted (including preparatory acts), or threatened to act, in furtherance of the alleged infringement, or

(b) any State to which the alleged infringement was directed, including those States for which defendant took no reasonable steps to avoid acting in or directing activity to that State.

(2) If an action is brought in the courts of a State only on the basis of the direction of the alleged infringement to that State, then those courts shall have jurisdiction only in respect of the injury arising out of unauthorized use occurring in that State, unless the injured person has his habitual residence or principal place of business in that State.

Id.

30. *See id.* § 204(1).

31. *See* MINSOHŌ, *supra* note 4, art. 5, para. 9.

32. Hiroshi Takahashi, in KOKUSAISHIHO HANREI HYAKUSEN [Selected 100 Judgments in the Field of Conflict of Laws] 167 (Yoshiaki Sakurada & Masato Dogauchi eds., 2004) (on file with the author).

on the acts, and not their effects. Nevertheless, as Section 204 applies specifically to IPR disputes, especially in the internet environment, while Japanese law is a kind of general rule, courts may still be receptive to Section 204(1)(a). We should continue our observation of the development of case law in this area.

But would Section 204(1)(b), which states that infringement actions may be brought in “any State to which the alleged infringement was directed,” be acceptable?³³ The Supreme Court’s decision on June 8, 2001 in *Tsuburaya Production v. Y (Ultraman Case)* is illuminative here.³⁴ Although it is not clear from the opinion whether the Court focused on the act itself or its effects in reaching its decision to allow jurisdiction, if the Court decides to emphasize effects over the act itself, Section 204(1)(b) may not be acceptable to Japanese courts. The facts of this case are as follows: Defendant Y, a Thai national living in Thailand, claimed that he was exclusively licensed to use the copyright of the TV figure “Ultraman” outside of Japan by X, a Japanese company and the copyright holder of Ultraman in Japan.³⁵ X licensed A, a Japanese company, to make and sell Ultraman products in Southeast Asia. Y then warned A, through a Hong Kong law firm, that the manufacturing of Ultraman products would violate Y’s copyright and license.³⁶ X sued Y in Japan for, among other things, damages caused by Y’s tortious warnings to A.³⁷ The Court held that tort actions provide the jurisdictional basis for a case when the elements of a tort claim are objectively present.³⁸ As the Court stated, “It is clear the disturbance was caused by the Appellee having the warning letter delivered to the companies’ addresses in domestic Japan.”³⁹

33. ALI PRINCIPLES, *supra* note 1, § 204(1)(b).

34. *See generally* *Tsuburaya Productions v. Somporte Saengduencha (Ultraman Case)*, 55 MINSHŪ 727 (Sup. Ct., June 8, 2001) (Japan), 45 JAPANESE ANN. OF INT’L L. 151 (2002) (unofficial English translation) [hereinafter *Ultraman Case*] (facts of case simplified by author). *See also* Shoichi Okuyama, *Recent IP News From Japan*, WINDS FROM JAPAN, Oct. 2001, at 6 (providing summary of Ultraman case).

35. *See* *Ultraman Case*, *supra* note 34, at 151.

36. *See id.* at 151–52.

37. *See id.* at 152.

38. *See id.*

39. *See id.* *Ultraman Case*, *supra* note 34 (translation by author) (on file with author). For another English translation, see *Ultraman Case*, *supra* note

Thus, the Court held that a tort claim was objectively present and claimed jurisdiction over the suit. If one follows the language in the Court's opinion, the Court's requirement of "objectively present" should mean the presence of tortious acts and effects and should exclude subjective factors such as negligence or intention. The place where the tortious acts occurred and the place where the effects of the acts were felt are identical in this case. Simply being the object of tortious acts would perhaps not be sufficient to give courts jurisdiction over a dispute. On the other hand, in Internet-related cases, Japanese courts may decide differently.

3. Section 206(1)(b): Prohibited Grounds of Jurisdiction and "Presence of Intellectual Property"⁴⁰

Section 206(1)(b) of the ALI Principles prohibits the exercise of jurisdiction on the basis of "the presence or the seizure in that State of intellectual property belonging to the defendant, except where the dispute is directly related to that intellectual property."⁴¹ One of the six claims in the *Ultraman Case*, a negative declaratory judgment that Y was not the copyright holder in Japan,⁴² concerns Section 206(1)(b). The Court held that a Japanese copyright should be deemed located in Japan; thus, the Court had jurisdiction based on the location of assets, even over a negative declaratory judgment on the copyright holder of a Japanese copyright, under Article 5(4) of the Code.⁴³ Section 206(1)(b) of the ALI Principles would lead to the same conclusion.⁴⁴ One problem with the *Ultraman Case* was that jurisdiction was extended over another core issue, i.e., the identity of the rightful copyright holder outside of Japan, through the

34, at 153 ("It is clear ... there is an objective factual relationship based on the disturbance of the Appellant's business caused by the Appellee having the warning letter delivered to the companies' addresses in domestic Japan.").

40. ALI PRINCIPLES, *supra* note 1, § 206(1)(b). The current version of the provision reads as follows: "Jurisdiction shall not be exercised by the courts of a State on the basis solely of any of the following: ... the presence or the seizure in that State of intellectual property belonging to the defendant, except where the dispute is directly related to that intellectual property." *Id.*

41. *Id.*

42. See *Ultraman Case*, *supra* note 34, at 153.

43. *Id.*

44. See ALI PRINCIPLES, *supra* note 1, § 206(1)(b).

combination of the negative declaratory judgment and the joinder of claims. In this way, the restriction of “directly related” in Section 206(1)(b) could be bypassed.

4. Section 220: Counterclaims and Supplemental Claims⁴⁵

In the *Ultraman Case*, the Supreme Court also affirmed its jurisdiction over the following four claims: (1) a declaratory judgment that the contract between X and Y was forged; (2) a declaratory judgment that X was the copyright holder in Thailand; (3) a negative declaratory judgment that Y was not licensed to use the work; and (4) an injunction against warning letters sent by Y with the statement that Y was the copyright holder outside of Japan and that doing business with X would violate Y's exclusive right.⁴⁶ The Court found that these claims were closely related to the other two claims, compensation of damages and a negative declaratory judgment on Japanese copyright, and held, based on the joinder of claims provision in the Code under Article 7, that it had jurisdiction over them as well.⁴⁷

If Section 220(1) of the ALI Principles had been applied in the *Ultraman Case*, what would the outcome be? Section 220(1) states:

A court that has jurisdiction to determine a claim under the Principles also has jurisdiction to determine *all claims* between the parties arising out of the transaction or series of transactions or occurrences on which the original claim is

45. *Id.* § 220. The current version of the provision reads as follows:

(1) A court that has jurisdiction to determine a claim under the Principles also has jurisdiction to determine all claims between the parties arising out of the transaction or series of transactions or occurrences on which the original claim is based, irrespective of the territorial source of the rights at issue, and irrespective of which party asserts them.

(2) A court may decline to exercise jurisdiction over a supplemental claim unrelated to intellectual property rights if it substantially predominates over the claims properly within the scope of the Principles.

Id.

46. See *Ultraman Case*, *supra* note 34, at 153–54.

47. See *id.*

based, irrespective of the territorial source of the rights at issue, and irrespective of which party asserts them.⁴⁸

The Reporters explain that

[T]his section suggests that where courts have subject matter authority, they should exercise it to permit litigants to assert all their claims arising out of the same transaction or occurrence or series of transactions or occurrences.... Although the general approach of these Principles strongly favors the assertion of transactionally related claims in a single action, they do not go further and require the joinder of claims....⁴⁹

Section 220(1) excludes the joinder of claims. However, if the results of applying Section 220(1) in the *Ultraman Case* would be the same as those reached by the Supreme Court, Section 220(1), irrespective of the Reporters' Comments, allows the joinder of claims. If this conclusion does not reflect the Reporters' intentions, they should modify the language of Section 220(1) accordingly.

5. Section 225: Consolidation of Territorial Claims⁵⁰

The Supreme Court may be somewhat reluctant to comply with Section 225 of the ALI Principles, which calls for the consolidation of related pending actions in a single forum.⁵¹ The *Ultraman Case* is illustrative. Y brought suit against X in Thailand, asserting that the Ultraman's Thai copyright was shared by X and Y.⁵² The Supreme Court mentioned this Thai case in

48. ALI PRINCIPLES, *supra* note 1, § 220(1) (emphasis added).

49. ALI PRINCIPLES, *supra* note 1, at 65–67 (Comments and Reporters' Notes).

50. *Id.* § 225. The current version of sections one and two of the provision read as follows:

(1) Upon the motion of an interested party, or sua sponte, the court first seized, as determined by § 224(6), should consider consolidation of related pending actions and claims in a single forum in order to achieve worldwide resolution of a dispute among multiple litigants.

(2) For the purposes of this section, actions are deemed to be related where, irrespective of the territorial source of the rights and the relief sought, the claims arise out of the same transaction or series of transactions or occurrences.

Id.

51. *Id.*

52. *See Ultraman Case, supra* note 34, at 152.

its decision, but since the Court concluded that the core issue in the Thai case was different from the action before it, the Court did not consider it when deciding jurisdiction.⁵³ Although I do not know the details of the Thai case, Sections 225(1) and (2) of the ALI Principles seem applicable to these two cases; they should have been consolidated, unless the Thai procedure had criminal character. In both the Thai and Japanese suits, the claims seemed to arise “out of the same transaction or series of transactions or occurrences,” and should therefore have been deemed as “related” under Section 225(2) since the origin of the dispute between X and Y was the license contract relating to X’s copyright outside of Japan.

III. THE ALI PRINCIPLES ON CHOICE OF LAW ISSUES AND IPR IN JAPAN

A. Generally

Japanese choice of law rules are contained in a statute entitled *Hōrei*, promulgated in 1898 and modeled after German law.⁵⁴ Thus, Japanese choice of law rules belong to the civil law system. German choice of law rules have a specific structure; which law to apply is determined by the type of legal relationship, i.e., whether the action is one in tort or contract, and how that action is connected to the forum through one or more connecting factors, such as where the offensive act occurred or where the effects of that act arose.⁵⁵ Under this system, foreign and domestic laws have equal value, but this equal value is only given to private foreign and domestic laws, not public, since public laws, unlike private laws, are promulgated to achieve specific purposes in each country.⁵⁶

Substantive law, which is not applied through choice of law mechanisms, has been described by European jurists in various ways, such as *Selbstgerechte Sachnormen* (self-justifying Substantive Law) or *loi d’application immédiate* (directly applicable

53. *See id.*

54. *See generally* *Hōrei*, *supra* note 5.

55. Peter Hay, *From Rule-Oriented to "Approach" in German Conflicts Law The Effect of the 1986 and 1999 Codifications*, 47 AM. J. COMP. L. 633, 635, 637 (1999).

56. *Id.* at 639–40, 646.

law).⁵⁷ Public law is a typical example of this genre. The relevant question, therefore, is whether IP laws, especially patent laws, also belong to this genre because government involvement is common in this area. If this question is answered in the affirmative, choice of law rules would be irrelevant because patent law would be, *a priori*, applicable as substantive law and the impact of the ALI Principles on choice of law would largely diminish.

Additionally, territoriality concerns may obviate the need to explore choice of law rules in the IP arena. When territoriality is emphasized, only one law is applicable. Indeed, most IP lawyers believe that IPR territoriality principles exclude discussion of choice of law issues.⁵⁸

B. ALI Principles on Applicable Law and Japanese Law

The Supreme Court, however, has adopted none of these approaches.⁵⁹ In fact, the Court held that the territorial nature of IPR would not necessarily prevent choice of law issues from arising in IP disputes.⁶⁰ The Court then classified injunction and infringement differently: injunction as the effect of patent and infringement as tort.⁶¹ The Court held that because the Hōrei lacks specific provisions regarding the effect of patent, the applicable law, i.e., the law with the closest connection to the concerned legal relationship, should be determined by *Jori*.⁶² Thus, the law of the country where the patent is registered should be the applicable law. In this case, it was U.S. law. Under U.S. patent law, Sections 271(b) and (f), both the party responsible for the infringement and the person who induced the infringement overseas are liable.⁶³ However, according to the Court, Japanese patent law does not recognize the extraterrito-

57. See GERHARD KEGEL & KLAUS SCHURIG, *INTERNATIONALES PRIVATRECHT* 261 (8th ed. 2000).

58. See Graeme B. Dinwoodie, *International Intellectual Property Litigation: A Vehicle for Resurgent Comparativist Thought?*, 49 AM. J. COMP. L. 429, 438–39 (2001).

59. See generally Card Reader Case, *supra* note 13 (indicating the Supreme Court's approach in IP disputes).

60. See *id.* at 170.

61. See *id.* at 172–74.

62. See *id.* at 169.

63. Patents, 35 U.S.C. §§ 271(b), 271(f)(1) (2005).

rial applicability, and so the policy behind U.S. patent law is too foreign and collides with the fundamental values of Japanese law.⁶⁴ Therefore, the Court concluded that the application of U.S. patent law would violate Japanese public policy under Article 33 of the Hōrei.⁶⁵

For infringements, the Court applied Article 11 of the Hōrei, which states that the law of the place where the tort occurred is applicable.⁶⁶ However, under Article 11, Japanese law must be cumulatively applied.⁶⁷ The question is whether the inducing acts conducted abroad would constitute a tort under Japanese law. Since Japanese law lacks provisions or conventions that set aside the territoriality principle, such inducement would not be unlawful. Therefore, it seems that the Supreme Court has abandoned the territoriality principle approach, which excludes conflicts of law mechanisms. In this sense, the Court's decision was an epoch-making judgment.

*C. Section 301: Existence and Scope of Rights and Remedies*⁶⁸

Under Section 301(1), the law of registration would apply to both patent infringements and remedies.⁶⁹ If the term "remedies" encompasses not only ex-post, but also ex-ante remedies, it would cover both compensatory damages and injunctive re-

64. See Card Reader Case, *supra* note 13, at 171–72.

65. See *id.*; Hōrei, *supra* note 5, art. 33.

66. Hōrei, *supra* note 5, art. 11.

67. *Id.* art. 11, para. 2.

68. ALI PRINCIPLES, *supra* note 1, § 301. The current version of the provision reads as follows:

(1) As a general rule, with respect to rights that arise out of registration, the law applicable to determine the existence, validity and scope of those rights and remedies for their infringement is the law of each country of registration.

(2) With respect to other intellectual property rights, the law applicable to determine the existence, validity and scope of the intellectual property rights and remedies for their infringement is the law of any country where the alleged infringing act has or will significantly impact the market for the work or subject matter at issue.

(3) With respect to personal rights, the law applicable to determine the existence, validity and scope of the rights and remedies for their violation is the law of the country where the damage occurred.

Id.

69. See *id.*

lief. As the Reporters explain, the starting point for the ALI Principles is application of the law of the place where the damage occurred.⁷⁰ But in the digital age, according to the Reporters, “[d]esignating the country of initiation of the alleged infringement as the place of the ‘wrongful act’ enjoys the considerable merit of simplifying the action: only one national law need apply.”⁷¹ If we were to apply Section 301(1) to the *Card Reader Case*, where the main issue was infringement of a U.S. patent, U.S. law as the law of registration seems applicable for both the awarding of compensatory damages and injunctive relief.

The Supreme Court, however, treated the case as one of classic patent infringement; the simplification of applicable law was not an important issue for the Court. Thus, the Court determined the applicable law for damages and injunctive relief separately.⁷² Ironically, even when focusing on the occurrence of damages, a different tactic than that suggested by the Reporters of the ALI Principles, the Court ended up applying U.S. law. In other words, although the Court took a different approach (effects-focusing) from Section 301 of the ALI Principles (acts-focusing), it reached the same conclusion as would have been reached under Section 301.

In the *Coral Powder Case*, the Tokyo District Court followed the Supreme Court’s lead in the *Card Reader Case*. Also in the *Coral Powder Case*, the patent-based injunction was classified as the “effect of patent.”⁷³ The Court held that the applicable law should be determined by *Jori*. Because the laws of the country where the patent was registered have the closest relationship to the patent, those laws should be applicable. In applying U.S. patent law, the Court concluded that the plaintiff’s products did not fall within the scope of the defendant’s patent.⁷⁴ Thus, because selling these products did not constitute a violation of U.S. patent law, no injunction should have been ordered.

The Court, however, emphasized the tort implications by concluding that the damages sought by the plaintiff were based on

70. See *id.* at 109 (Comments & Reporters’ Notes).

71. *Id.*

72. See *Card Reader Case*, *supra* note 13, at 170–74.

73. See generally *Coral Powder Case*, *supra* note 22.

74. See generally *id.*

the defendant's tortious warnings to the plaintiff's business partner in the United States.⁷⁵ Because the Court classified these warnings as torts, and since the defendant had sent his warnings via e-mails and letters from Japan, Japan was the place of the tort.⁷⁶ The Court took a different approach (acts-focusing) concerning a tort claim from that of the Supreme Court in the *Card Reader Case* (effects-focusing). Thus, the Law for the Prevention of Unfair Competition was applicable.⁷⁷ The Tokyo District Court's emphasis on the place from which warnings were sent, i.e., acts rather than effects, seems to mirror the meaning of Section 301(1).

75. See generally *id.*

76. See generally *id.*

77. See generally *id.* See also Law for the Prevention of Unfair Competition, Law No. 47 of 1993, amended by Law No. 116 of 1994 (Japan), <http://www1.oecd.org/daf/ASIAcom/pdf/jplaw.pdf> (unofficial translation).

*D. Section 315, Transfer of Title and Grants of Licenses*⁷⁸:

*Employee's Invention and Article 35 of Japanese Patent Law*⁷⁹
– *Directly Applicable Law?*

78. ALI PRINCIPLES, *supra* note 1, § 315. Sections one and two of the provision state:

(1) Except for the transferability of rights and transfers by operation of law, the law applicable to transfer of ownership in, or a grant of a license to use, intellectual property rights is the law designated by the parties to the contract.

(2) In the absence of a contractual choice of law clause, the applicable law is that of the country with the closest connection to the contract. It shall be presumed that the contract is most closely connected to the country where the assignor or the licensor has its habitual residence or its main business establishment.

Id.

79. Tokkyo Ho [Patent Law], Law No. 121 of 1959, art. 35, *amended by* Law No. 220 of 1999, (Japan) [hereinafter Japanese Patent Law], <http://www.jpo.go.jp/shoukaie/patent.htm#35>. The current version of this provision is as follows:

(1) An employer, a legal entity or a state or local public entity (hereinafter referred to as the "employer, etc.") shall have a non-exclusive license on the patent right concerned, where an employee, an executive officer of a legal entity or a national or local public official (hereinafter referred to as the "employee, etc.") has obtained a patent for an invention which by reason of its nature falls within the scope of the business of the employer, etc. and an act or acts resulting in the invention were part of the present or past duties of the employee, etc. performed on behalf of the employer, etc. (hereinafter referred to as an "employee's invention") or where a successor in title to the right to obtain a patent for an employee's invention has obtained a patent therefor.

(2) In the case of an employee's invention made by an employee, etc. which is not an employee's invention, any contractual provision, service regulation or other stipulation providing in advance that the right to obtain a patent or the patent right shall pass to the employer, etc. or that he shall have an exclusive license on such invention shall be null and void.

(3) The employee, etc. shall have the right to a reasonable remuneration when he has enabled the right to obtain a patent or the patent right with respect to an employee's invention to pass to the employer, etc. or has given the employer, etc. an exclusive right to such invention in accordance with the contract, service regulations or other stipulations.

Last, it is worth mentioning “employee’s invention,” one of the hottest issues in Japanese IP law. Such a discussion raises fundamental issues regarding choice of law. Each country treats employee’s invention issues differently. Germany has a special labor law (*Arbeitnehmererfindungsgesetz*),⁸⁰ while in the United States and the United Kingdom, it is a matter of contract law.⁸¹ The relevant questions for us are twofold: (1) how to apply these laws, and (2) how to determine the territorial scope of these laws.

Article 35(3) of Japanese Patent Law provides that employees shall have the right to a reasonable remuneration when they pass to their employers the right to obtain patents for their inventions or have given employers the exclusive right to such inventions.⁸² The question raised is whether calculation of remuneration is a right vested only in Japanese patent holders or if the right to obtain a foreign patent should be included. In other words, does the right to obtain a foreign patent fall within the scope of Article 35? Although scholars and courts are divided on this issue, I believe that the scope of this provision is limited to Japanese patents. Since it is quite clear from its history that this provision was introduced to protect employees, it is by its nature much like labor law. The protection of employees should not depend upon the labor policies of foreign countries. Thus, it should be understood as “directly applicable law,” and applied when the labor, i.e., the research necessary for the invention, occurs in Japan.

Section 315, governing the transfer of title and grants of licenses,⁸³ is the relevant ALI Principle concerning this issue. The Reporters’ Comments indicate that it seems to cover em-

(4) The amount of such remuneration shall be decided by reference to the profits that the employer, etc. will make from the invention and to the amount of contribution the employer, etc. made to the making of the invention.

Id. (This provision has been amended and the new version will enter into force in April 2005; it will remain essentially unchanged, however).

80. Gesetz über Arbeitnehmererfindungen (*Arbeitnehmererfindungsgesetz*), v. 18.1.2002 (BGBl. I S.414) (F.R.G.).

81. 30 C.J.S. *Employer* § 118 (2004); Patents Act, 1977, c. 37, §§ 39–43 (Eng.).

82. Japanese Patent Law, *supra* note 79, art. 35(3).

83. ALI PRINCIPLES, *supra* note 1, § 315.

ployee's inventions.⁸⁴ However, the section addresses inventions only as a matter of contract. Therefore, according to the ALI Principles, the parties could choose the applicable law in their agreement concerning the transfer of IP. This does not address the protection of employees, however. If Japanese courts are to accept Section 315, they should also apply Article 35 of Japanese Patent Law in order to protect employees who conduct their research in Japan.

IV. CONCLUSION

Comparing the ALI Principles with some recent decisions by Japanese courts makes it clear that some ALI Principles are easily acceptable to Japanese courts while others should be modified to clarify their scope. On the other hand, since the ALI Principles are influenced by the new IPR environment, such as digitization, Japanese courts may want to adopt rules similar to the ALI Principles when they face IP issues related to the new environment.

84. *Id.* at 131 (Comments & Reporters' Notes) ("The intangible subject matter of the transfer or license has been developed by the transferor or licensor in its factories, workshops or studios. It is aimed at working or being used in a given technical or social environment.").

REMARKS BY GRAEME DINWOODIE*

ROBERTA: I think we're ready to start the second panel on this very interesting conference.

PROFESSOR GRAEME DINWOODIE: Thank you, Roberta. I am going to comment on several developments in this area in common law systems, and then try and relate those comments to the ALI proposal that we have been discussing. It is important, as we assess the ALI proposal, to look at what the alternatives are -- and one obvious alternative is the current system. Whatever criticisms might be made of the ALI proposal, one has to bear in mind is that we should not compare the proposal to some perfect, pristine, model of certainty that presently exists; the current system is far from perfect, and certainty is not one of its hallmarks.

First, I agree with both Rochelle and François that this topic can really only be addressed by looking at all of the different components of what Rochelle called the "jigsaw puzzle" of private international law, namely, jurisdiction, choice of law or applicable law, and recognition of judgments. One of the major advantages that the ALI proposal has over the initial Hague project is that it does address all three of those issues. I understand why the Hague proposal was different; relevant political forces led to the particular structure of a mixed convention without choice of law. And I also understand the political climate in which the Europeans adopted the Brussels Convention, the double convention dealing with jurisdiction and judgments but not choice of law. But the dynamics between choice of law and jurisdiction and enforcement are very, very important in coming to a solution that allows us to deal efficiently with multi-territorial disputes. Including choice of law in this discussion is thus absolutely vital, and I think that having us address that topic is in itself a great contribution that we can attribute to the ALI project.

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Unfortunately, however, intellectual property lawyers have never thought all that consciously, maybe even not all that subconsciously, about the separation of these three different components of private international law. Private international lawyers do so all the time, but in the past intellectual property lawyers didn't. In part, that's because intellectual property lawyers almost never thought about private international law at all until the early 1990s. There wasn't much of a developed body of scholarship that would have assisted in maintaining a clear separation. Indeed, when you look at the leading international intellectual property cases and at some of the relevant doctrines that have developed in recent years, the tests used to determine questions of adjudicative jurisdiction are very similar to some of the tests used to determine applicable law. These questions do converge, but I think it is very important for us to keep them separate.

Notwithstanding the lack of real attention to the private international law implications of intellectual property, there were doctrines in the common law intellectual property systems that operated in a variety of ways to act like private international law doctrines. They all flowed from the principle of territoriality, about which several people have already spoken. Most conflicts scholars would take the question of territoriality to be a principal focus of *their* discipline, even though intellectual property lawyers did not think about it in those terms.

As Sam said, the principle of territoriality goes as far back as the Paris and Berne Conventions in the 1880s, when it was firmly ensconced as a core principle of international intellectual property law. The principle was more recently reiterated by effective incorporation of the Paris and Berne Conventions in the TRIPS Agreement ten years ago. Putting historical explanations aside, however, the principle of territoriality is in fact an underlying principle of a lot of law. Intellectual property law is not unique in having a territorial component. And I think it's important to bear in mind that there's reason to support the principle on grounds of both principle and pragmatism. But we might re-assess our commitment to the historical principle differently when we look separately at those two considerations of principle and pragmatism.

Under the heading of principle, the normatively appropriate prescriptive authority (or reach) of states has tended historically to be defined by territory. Put another way, the prescrip-

tive interest of the state largely stopped at its borders. The Internet, the topic of our conference, arguably has changed that notion of the appropriate prescriptive authority of the state.

But there are a couple of easy traps into which one can fall in trying to define appropriate prescriptive authority in the Internet-era. It's too easy to assume that, because of the ubiquity of the Internet, all interests that were nationally-defined suddenly become global in nature. That's a very easy -- and dangerous -- trap into which to fall. First, we might not, as a normative matter, like the notion of all interests being defined globally. We might think there is some value proactively in creating a culture in which there is a positive value given to difference. And therefore we might want to resist this idea that the reach of a state's interest should now operate on a global level. And obviously that observation reflects a broader debate about the dangers and values of globalization.

Second, although the Internet has clearly altered the scope of states' legitimate interests, and now gives states legitimate prescriptive interest in areas where they previously would not have had them, that enlarged prescriptive authority is no longer exclusive. It's more often shared. States may previously have thought that the territoriality principle gave them exclusive authority to act in a particular sphere without having to take account of other states' interests. This is not so true now. States surely can now act legitimately in a larger number of less territorially-confined areas, but they also have to take greater account of the interests of competing states. We should bear in mind these kinds of considerations of principle -- that is to say, the actual prescriptive authority that we might want to accord to states -- as we construct any system.

Earlier, I said that, in addition to considerations of principle, territoriality reflected pragmatism or practicality. Private international law is really all about practicality, about enforcing rights, as I think Graeme Austin commented at the WIPO Forum a couple of years ago. Issues of enforcement, effective enforcement, and certainty for actors in the commercial sphere, are all relevant..

Obviously the Internet is changing this consideration as well, because an online actor is less certain than his offline colleagues about the legal regimes to which his conduct is going to be subjected. Practical certainty is an important consideration, and you see some of that reflected in the ALI project. So, for

example, when Rochelle was talking about the considerations that the current draft lists as relevant to when we might want to consolidate cases in a single court, these were very practicality-oriented considerations. The ALI project appropriately takes practical considerations into account.

But we must also think about the first consideration that I mentioned, namely, questions of principle. So how *should* we reconfigure territoriality in the climate of the Internet?

The proposition with which Sam started, and which both Rochelle and François endorsed, and that no one since has disputed, is that intellectual property law is territorial. But that proposition masks a variety of different sub-propositions. There are different parts of intellectual property law that have a territorial dimension, and it's worth separating them in order to work out where we are focusing in today's discussion.

First, you can say that the scope of intellectual property rights is territorial. In use-based trademark law systems, for example, the scope of a trademark owner's rights only goes so far as the goodwill that attaches to its mark. Similarly, the British copyright statute says that the copyright owner has the exclusive right to do and to authorize the defined acts with respect to its work *in the United Kingdom*. Rights are territorial.

Territoriality also affects the legal norms or the rules that are applicable in intellectual property disputes. We have national intellectual property laws; we have territorial laws.

We also have national systems (or territorial systems) of enforcement. Courts generally have adjudicative authority defined, among other things, by territory. Indeed, historically, common law courts have restricted their adjudication of intellectual property matters to activities occurring within their territory and to activities respecting rights conferred with respect to that territory.

Finally, you have territoriality of acquisition mechanisms. When we're dealing with rights that require registration or application to secure protection – so we are talking mostly about industrial property regimes – acquisition procedures operate on a territorial basis. There are mechanisms, such as the Madrid Protocol or Hague design agreement, designed to facilitate the acquisition of territorial (national) rights on a multinational basis. And the Community Trademark has made the proposition less absolute. But even these examples are essentially grounded in the territorial model.

Our discussion today has focused on the national enforcement model. But what changes we make with respect to the national enforcement model will affect those other issues. And what we do by way of consolidation will affect, I'll suggest in a minute, what we might do in choice of law. Similarly, one of the things that could be done to ameliorate some of the problems of multi-territorial enforcement would be to have systems for acquiring rights that made it easier to secure rights on a broader geographic scale. As I mentioned, we have some mechanisms in the industrial property area that allow us to do that, and therefore ameliorate to some extent problems of enforcement that are greater in the copyright area. I'm going to talk now about the territorial *enforcement* model because I think another great contribution of the ALI project is to start a discussion about consolidation in intellectual property cases. But I stress that changes in the enforcement context are going to operate dynamically with these other aspects of the territoriality model.

First, I'll sketch some of the common law doctrines that courts have begun to develop in order to deal with some of the problems we have been discussing. This will be valuable, I hope, because, as I said at the beginning, we have to measure the ALI proposals against real-life alternatives to fairly assess the contribution that those proposals might make.

The doctrines that different common law countries use to implement a territorial approach to enforcement sometimes have different names, but they operate in largely the same way. In copyright law, there remains a pretty strong commitment to the principle that laws do not operate extraterritorially. Certainly in the United States it is a mantra that copyright courts repeat with some regularity. However, the US courts have developed theories or devices by which they have been able to apply American law to activity that occurs either wholly or partly abroad. For example, US courts have said that if an infringing act in the United States enables further infringements abroad, a plaintiff can sue in the United States and obtain relief (obtain damages, or in the Ninth Circuit now, just profits) for the activity both in the US and abroad. This doctrine has a variety of names. Some people call it the root copy theory. Other people call it the predicate act theory. But it's a theory that's been accepted both by the Second Circuit (for 60 years) and the Ninth Circuit for a couple of years. I would say that it is now a majority theory throughout the US, and also serves as a way of apply-

ing a single law, American law – we shall get back to that point later – to essentially what is a transnational problem.

Moreover, once courts started thinking about copyright choice of law rules in the 1990s, those rules became quite flexible -- and flexible is the polite term for manipulable. This flexibility allows courts to localize what are essentially transnational acts within the United States. But an important point here is that choice of law rules sometimes don't come bearing that label. You do of course get choice of law rules that are announced as such. The leading case in the United States is *Itar-Tass* in the Second Circuit from 1998. There, the Second Circuit said that, in determining the ownership of a copyright to be enforced in the United States courts, we will apply the law of the most significant relationship to the parties and the transaction. That is in essence the test from the second restatement of conflicts. The court looked especially to the factors of the authors' nationality (in that case, Russia) and place of first publication (which was also Russian). It thus applied Russian ownership rules to determine who owned the copyright that would then be enforced in the United States with respect to US infringing acts. On whether the acts occurring in the United States were infringing, the court essentially applied the *lex loci delicti*. Although the court nominally defined its approach as interest analysis, it came very close to applying *lex loci delicti*. The place of publication was New York and so they applied US law to the question of infringement.

This approach is perhaps unduly flexible. The most significant relationship test can allow you very easily to localize acts that are essentially transnational disputes within one country, and there will often be several localization options. And the same is true regardless whether the law applicable to infringement is determined by a general interest-based, or policy-based, approach rather than the traditional *lex loci delicti* approach. There are simply too many potential *loci delicti* online.

I said earlier that there are rules that operate as choice of law rules but are not labeled as such. What I'm thinking of here are instances in which the US courts have defined key concepts that are relevant to an essential element of the intellectual property cause of action. So, for example, to establish a violation of the public performance right of the copyright owner, the plaintiff must show that the work has been performed. How you define performance will affect whether or not you can localize

and establish a cause of action under one set of laws as opposed to another. So, in a Ninth Circuit case where there was a satellite transmission from the United States to Canada, the Court held that a performance occurred only where the signal was received. That was in Canada, so we didn't have a performance, and we didn't have a cause of action under US copyright law. The Second Circuit, in contrast, in *National Football League versus Primetime 24*, disagreed and held that every single step in the process from the uplink of a signal to the reception can be a performance within the meaning of the statutory term. Technically, the solution to this question was not cast as a choice of law rule. The courts were seeking to define the substantive right of the copyright owner. But that interpretation of "performance" essentially allowed the Second Circuit to localize almost any satellite transmission it wants in the US -- either it goes from the United States or comes into the United States. So there is a manipulable choice of law rule embedded in this substantive concept. The WIPO Standing Committee in Trademark has adopted a Recommendation about the concept of Use on the Internet that likewise effectively operates as a choice of law rule, even though it is also cast as a set of substantive rules of trademark law. I think Annette Kur may talk about the Recommendation this afternoon.

Increased flexibility for copyright litigants can also be seen outside the choice of law context. Recently, US courts have indicated a willingness to allowed claims under foreign copyright laws to be tried in the US courts. This time, the courts are respecting the foreign law. They are applying the foreign law, but are still modifying the territorial model of enforcement. The most notable example of this is the *Boosey and Hawkes* case from the Second Circuit in 1998 where the Second Circuit reversed a district court decision saying that as a matter of forum non conveniens doctrine, it was not convenient to have to apply eighteen foreign copyright laws. And the Second Circuit, not being a trial court, said the district court would be just fine applying eighteen foreign copyright laws, and thus shouldn't have dismissed the case under forum non conveniens.

So even in the absence of a treaty and without the ALI project, you can see, particularly in the last six years in New York, that the Second Circuit has endorsed efforts to move beyond the national model of enforcement.

As a caveat to such flexibility, take note of a slightly aberrant Ninth Circuit decision, *Creative Technologies versus Aztec*. There, the Court dismissed on *forum non conveniens* grounds what was in large part an American copyright claim and part of a dispute between two American subsidiaries of Singapore companies. The Court allowed the case to be litigated instead in Singapore on the grounds, in part, that the plaintiff could always sue in Singapore for the American copyright infringement. So, although US courts may be more willing to adjudicate foreign claims in the United States, the *quid pro quo* might be the possibility that foreign courts might likewise adjudicate American copyright claims. This reinforces my earlier observation regarding the phenomenon of shared prescriptive authority.

Trademark law has not undergone quite the same changes as copyright law. In trademark litigation, there is still substantial resistance to adjudicating foreign trademark claims or protecting foreign trademark rights. The most notable example in the last couple of years is the *Barcelona.com* case in the Fourth Circuit. The reasons for that resistance are essentially twofold. First, it is thought that to adjudicate foreign trademark claims would involve passing on the validity of the act of administrative officials of the other state, i.e., the trademark-granting officials, and thus violate principles of comity. Second, it is argued that domestic courts lack judicial competence to apply foreign trademark law. These arguments appear, to me, to be unconvincing. Although assessment of factual issues such as consumer understanding might come more naturally to domestic courts, the application of trademark *law* is hardly so much harder than the application of copyright law. The challenge in the trademark context is how to minimize the substantial factual differences between claims under different foreign laws rather than worrying about judicial competence.

While there has been this reluctance in US courts to adjudicate foreign trademark claims, there has not been a parallel reluctance to apply American trademark law to almost any dispute that can be adjudicated in the US courts. Some of this assertiveness has been prompted by the *in rem* jurisdiction of the Anti-Cybersquatting Act. This jurisdiction provision allows plaintiffs to litigate a cybersquatting dispute in the Eastern District of Virginia if you're in the dot com or dot org domains, if the court has no *in personam* jurisdiction over the domain name registrant-defendant. But even in *in personam* actions under

the cybersquatting statute, American courts have denied forum non conveniens motions in cases that appear to be largely foreign. And trademark law does apply extraterritorially under the Lanham Act in a range of defined circumstances, unlike copyright law.

It is good to see patent law in the ALI project. The Internet has raised a smaller number of patent law issues, because Internet activity appeared at first to implicate few patent rights. But to the extent that we move towards acceptance of business method patents, we could expect to see some of the same problems arise in patent law.

So that's where things stand at the moment in patent, copyright and trademark law in the common law system. What further developments might we want to see either through the modification of those doctrines or in the ALI project? First, let's consider the extent to which we differentiate the treatment of copyright, on the one hand, from patent and trademark, on the other, in adjudicating foreign claims. As I said, the reasons for more caution with respect to patent and trademark claims are a hesitation before passing on the validity of a foreign right and a belief that our judges simply do not have the competence to apply foreign or trademark or foreign patent laws. I've never been persuaded by the mighty offense that foreign nations would suffer. Given the nature of the act – it takes a small amount of time to determine whether to grant a trademark registration – is it really to be regarded as a fundamental act of the state? In an era where we have to come to some compromise on the exercise of shared authority, can't we compromise on that issue?

The competence issue surely suggests some degree of arrogance on the part of intellectual property lawyers. Do we really think that what we do is so tough that no one else in another country could possibly understand it? There are very fine judicial networks now established among intellectual property judges of different countries. On a regular basis, judges meet each other, they lecture to each other, they communicate with each other at conferences. Intellectual property judges may know more about the intellectual property laws of other countries than most of the non-intellectual property judges in those other countries. There's a fair case to be made that a British or German patent judge could apply American patent law as knowledgably as a district court judge in the United States. And I say that with all due respect to district court judges who

don't maybe get as many of those cases as would be necessary to develop expertise. And public law harmonization of trademark laws has probably also made the judicial task a bit easier because the basic issues in trademark law are largely common throughout the world.

Moreover, as I said earlier, we must compare the consolidation provisions in the ALI proposal to existing litigation models. How does the ALI proposal compare to litigants suing serially, country by country? Subject to the Second Circuit's modifications in copyright, this is what will otherwise occur. Clearly, in theory, costs and uncertainties are reduced by litigating in a single court. But that might only be in theory. In the last six years the courts have allowed several foreign copyright claims to proceed. However, almost none of those cases went to trial. There are substantial complexities involved in trying cases under eighteen foreign laws. If costs savings are to be real, there might be a temptation to simplify the proceedings. If a trial judge recognizes that because a work has been published in 140 countries on the Internet, she has the prospect of trying a case under 140 different laws, the application of forum (American) law may be very attractive. If forum law looks similar to the Italian or French or other potentially applicable laws, there may be a temptation to apply a single law in order to realize the efficiencies that we're trying to achieve through consolidation in a single court. That's a temptation that we at least need to be aware of, because there may be times when application of a single law will be inappropriate.

In that context, I was surprised to hear François' defense of territorialism in copyright. On other occasions, I have sensed that, at least in the Internet context, and contrary to the protestations in the ALI commentary, it would be exceptional to adhere to copyright territoriality under the ALI Principles. That's an issue I hope we can get to during discussion.

A second point of comparison between the ALI proposal and the current system of international intellectual property litigation might be the extent to which it would effect the Americanization of international intellectual property law. With respect to trademark law, I would argue that the ALI project might encourage the de-Americanization of trademark law because at present the US courts essentially apply American law, particularly in domain-name-related disputes, to almost any case over which they can obtain adjudicative jurisdiction. A system that

encouraged consolidation in other courts might encourage the development of law from elsewhere. And even if that consolidation occurred primarily in the United States, consolidation and liberal approaches to the adjudication of foreign claims might free U.S. courts to apply laws other than that of the United States.

Roberta, how much time do I have left?

ROBERTA: Oh, five minutes.

PROFESSOR DINWOODIE: All right. Moreover, whether under the current system or the proposed ALI system, there is real need for what might be called “a bit of give and take.” Steve Burbank has a good phrase that captures this: “Jurisdictional Equilibrium.” As *Creative Technology* suggested (though perhaps on the wrong facts), a jurisdictional balance will be achieved by courts deciding occasionally to decline jurisdiction, and occasionally to accept consolidated jurisdiction. No system will work if every court that sees a chance to control consolidated litigation grabs it. There has to be some restraint. With some exceptions, the problems we are discussing are characterized by an excess of prescriptive (and possibly adjudicative) authority. Lack of authority is rarely the problem. Therefore courts have to draw back from taking every single case that they can plausibly hear.

The need for restraint is in fact something that will pervade any system for resolving the type of multiterritorial disputes that we have been discussing. I noticed some of the general sentiment in the Court’s opinion in the recent Canadian Tariff 22 litigation. The Canadian Supreme Court said, first, that the Canadian legislature could enact laws that covered the foreign online conduct but, second, the court stressed that it would separately consider whether the legislature actually exercised that authority. That’s something you don’t see as much of in US opinions.

A set of rules on recognition is itself a form of restraint. That is to say, if states agree to recognize judgments of other courts, that decision is essentially an obligation to defer from reaching an independent judgment on a case that domestic courts might otherwise be able to hear. And so rules on recognition are an important part of the philosophy of restraint.

Another context in which the philosophy of restraint will play out will be in devising remedies in multi-territorial disputes. In recent years, in a number of cases, courts have recognized that

limited remedies will be important to consider when dealing with an Internet dispute. When relief affects the interest of other states, courts might have to tailor the remedy to allow legitimate activity in those other states to continue. The SCT WIPO Standing Committee on Trademark Recommendation on the Concept of Use on the Internet endorses this approach. And you can find it implicitly in the opinions of some US courts, such as the *Playboy versus Chuckleberry* decision of the Southern District of New York.

Let me acknowledge one caveat to efforts to offer nationally-configured relief in online disputes. As a normative matter, some commentators do not like the idea of deviating in any way from the (purported) premise of global space that underlies the Internet. Relief built upon technological measures that undermine the notion of global space (and impose technological mandates on defendants that will raise the costs of online activity) will be fought by some Internet advocates because of their vision of the Internet. This is a fair concern, but so too is the respect for different national intellectual property laws.

Just two other comments as I'm running out of time. First, in devising rules in the online environment, we should be careful not to become too Internet 2004-specific. The Internet is not a constant target. The structure of the Internet, how people act on the Internet, how they use domain names, keywords, and URLs as ways of getting around on the Worldwide Web, . . . these change all the time. One of the weaknesses of the Ninth Circuit decision in *Grokster*, I believe, is attaching legal significance to whether an index is centralized, decentralized, or dispersed over super-nodes without articulating the policy significance of those different technological constructions. So I would caution against building into the rules things that appear to be entirely specific to this current technology.

Finally, there is the politics of all of this. Maryellen mentioned that she thought these initiatives were a little bit unrealistic in 1997. There are some people who think it's still unrealistic. I'm definitely not one of them. I think this is a tremendous project that ALI and the reporters have undertaken. However, it is worth trying to explain what can be explained about the politics of these projects and their critics. I believe that many of the unconditional critics of the ALI proposal may disagree with the initiative for two different, though related, reasons. The first is rooted in a debate about how international

versus national we want our contemporary life to be. In these discussions, this is indeed likely to be the more explicit basis for objection. The implicit and sometimes unspoken reason may be that some commentators may see internationalism as a proxy for high or low levels of intellectual property protection.

That is to say, although François described applicable law rules as “neutral concepts,” which may reflect a first Restatement notion of conflicts in the United States, current American conflicts scholarship probably would not characterize applicable law rules in those terms. Likewise, some of the critics of the ALI Proposal would contend that it contains a substantive bias. Although I am receptive to the notion that procedural rules are never fully neutral, I agree with Rochelle and François that the ALI proposal does not a substantive bias in favor of one view of intellectual property law. I think the examples Rochelle used -- Grokster being sued both in Australia and in the United States, Lindows being sued in Europe after Microsoft thought that the result in the US litigation was not free from doubt – showed that a system such as envisaged by the ALI proposal can effect a shift that is pro-defendant as well as pro-plaintiff.

A value we've always had in the international intellectual property system is the autonomy of states to determine what cultural values they want reflected in their intellectual property law. There is value in the diversity of law. But consolidation may be the surest way to protect those values. If consolidation of national claims in a single court is not permitted, plaintiffs will seek extraterritorial rulings, and they will seek to extrude a single law to decide transnational disputes. If states allow consolidation, then courts might, subject to the temptation that I mentioned, respect the national laws of different states with legitimate interests and therefore preserve the national autonomy of member states. And that is a strong argument against critics of the ALI project. Thanks.

INTELLECTUAL PROPERTY POLITICS AND THE PRIVATE INTERNATIONAL LAW OF COPYRIGHT OWNERSHIP

Graeme W. Austin*

I. INTRODUCTION

In 1992, a leading British commentator called for the development of a “much needed private international law of intellectual property.”¹ Within the common law tradition, relatively little work had been done on the topic, but a few important contributions to the academic literature existed in Europe.² Path-breaking work by many distinguished scholars³ has since occurred, and there is now a growing body of case law on cross-border intellectual property issues. The current American Law Institute project, *Intellectual Property: Principles Governing*

* J. Byron McCormick Professor of Law, Rogers College of Law, University of Arizona. This article began as a speech delivered at the Brooklyn Law School Symposium: Intellectual Property Online: The Challenge of Multi-Territorial Disputes. While this article cites other Preliminary Drafts of the ALI Principles, the Symposium discussion focused on Preliminary Draft No. 3. Thanks to Professor Rochelle Dreyfuss for her insightful comments on an earlier draft and to Professor Richard Garnett for his advice on Australian copyright law. Thanks also to Cinead Kubiak for her careful and insightful editing. Responsibility for errors remains my own.

1. P. B. Carter, *Decisions of the British Courts During 1990*, 61 BRIT. Y.B. INT'L L. 386, 402 (1991).

2. See, e.g., EUGEN ULMER, *INTELLECTUAL PROPERTY RIGHTS AND THE CONFLICT OF LAWS* (1978).

3. For a sample of these contributions, see Jane C. Ginsburg, *The Private International Law of Copyright*, 273 RECEUIL DES COURS 253 (1998); Graeme B. Dinwoodie, *A New Copyright Order: Why National Courts Should Create Global Norms*, 149 U. PA. L. REV. 469 (2000); Rochelle Cooper Dreyfuss, *An Alert to the Intellectual Property Bar: The Hague Judgments Convention*, 2001 U. ILL. L. REV. 421 (2001); Timothy R. Hollbrook, *Territoriality Waning? Patent Infringement for Offering in the United States to Sell an Invention Abroad*, 37 U.C. DAVIS L. REV. 701 (2004); Curtis A. Bradley, *Territorial Intellectual Property Rights in an Age of Globalism*, 37 VA. J. INT'L L. 505 (1997); Paul Edward Geller, *From Patchwork to Network: Strategies for International Intellectual Property in Flux*, 9 DUKE J. COMP. & INT'L L. 69 (1998). On the specific issue of copyright ownership, the topic of the present article, see Paul Edward Geller, *Conflict of Laws in Copyright Cases: Infringement and Ownership Issues*, 51 J. COPYRIGHT SOC'Y U.S.A. 351 (2004).

Jurisdiction, Choice of Law, and Judgments in Transnational Disputes Law (ALI Project),⁴ is another important stage in the development of this body of doctrine and commentary.

In the last decade, we have seen the continued rise of an “intellectual property politics.”⁵ The politics of intellectual property has many facets. Some have described aspects of the domestic politics of intellectual property as a “war”⁶ characterized by bitter disputes over the boundary between private rights and the public interest. In the international context, we are also witnessing fierce debates over the consequences of “imposing” western intellectual property norms on developing countries.⁷ This debate is playing out in some developed nations as well, where there is an energized concern whether national interests are well served by a “one-size-fits-all” approach to international intellectual property.⁸ In addition, set against dominant inter-

4. AMERICAN LAW INSTITUTE, INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES (Preliminary Draft No. 3, 2005) (on file with the Brooklyn Journal of International Law) [hereinafter ALI PRINCIPLES]; *The Role of Equivalents and Prosecution History in Defining the Scope of Patent Protection*, International Association for the Protection of Intellectual Property (IAPIP) Resolution Q175 (Oct. 27, 2003), available at http://www.aippi.org/reports/resolutions/Q175_E.pdf.

5. See, e.g., Deborah Halbert, *Globalized Resistance to Intellectual Property* (Feb. 3, 2005) (paper presented at New York University's Engelberg Center Colloquium on Innovation Policy, on file with author); James Boyle, *A Politics of Intellectual Property: Environmentalism for the Net?*, 47 DUKE L.J. 87 (1997).

6. Jessica Litman, *War Stories*, 20 CARDOZO ARTS & ENT. L.J. 337, 337 (2002); Peter K. Yu, *The Escalating Copyright Wars*, 32 HOFSTRA L. REV. 907, 908 (2004).

7. See, e.g., Halbert, *supra* note 5; PETER DRAHOS & JOHN BRAITHWAITE, INFORMATION FEUDALISM: WHO OWNS THE KNOWLEDGE ECONOMY? (2002); Ruth G. Okediji, *Perspectives on Globalization from Developing States: Copyright and Public Welfare in Global Perspective*, 7 IND. J. GLOBAL LEGAL STUD. 117, 155–56 (1999); Ruth L. Gana, *The Myth of Development, The Progress of Rights: Human Rights to Intellectual Property Development*, 18 L. & POL'Y 315 (1996).

8. See e.g., Michael Geist, *Copyright Reform is Not a Spectator Sport* (Nov. 2004) (discussing Canadian copyright law reforms), at http://www.caut.ca/en/bulletin/issues/2004_nov/comm_copyrightreform.asp. The groundbreaking work currently underway by two New Zealand law professors, Geoff McLay and Susy Frankel, both of Victoria University of Wellington School of Law, provides another example. Professors McLay and Frankel are currently engaged in an exhaustive empirical analysis of the domestic impact of New

national trends is an emerging counter-discourse focused on the checks that international human rights law might impose on the seemingly inexorable rise of public international law obligations in the intellectual property context.⁹

This intellectual property politics forms part of the background context for initiatives such as the ALI Project. International conflict of laws might be viewed (unjustifiably) as a somewhat arcane and abstract branch of the common law, aloof from most political frays. However, in the present context, the typical traditions of conflict of laws, theorizing and cool-headed analysis, must now engage the highly politicized concerns of contemporary intellectual property law and policy. Accordingly, whatever the theoretical or logical unassailability of conflict of laws principles distilled by the ALI Project, it might be helpful if they were justifiable in ways that respond to relevant issues arising in current debates about the future shape of intellectual property law in domestic and international contexts.

In my remarks, I shall explore this point in the context of rules for copyright ownership. This is only one part of the large collection of issues addressed in the ALI Report¹⁰ and in other commentary and doctrine on the interrelationship between intellectual property and private international law. It is also a tiny part of intellectual property doctrine. Nevertheless, even this narrow focus hints at some of the broader advantages of engaging conflict of laws issues in ways that are informed by intellectual property politics. Solutions to conflict of laws prob-

Zealand's intellectual property law, focusing in particular on how well New Zealand laws actually serve the needs of industry and the commercial sector. See Geoff McLay & Susy Frankel, *Survey of Intellectual Property Use in New Zealand*, at http://www.vuw.ac.nz/home/surveys/ip_survey.html (last visited Mar. 28, 2005).

9. See generally Lawrence Helfer, *Regime Shifting: The TRIPS Agreement and New Dynamics of International Intellectual Property Lawmaking*, 29 *YALE J. INT'L L.* 1 (2004) (discussing ways that international human rights law might provide checks on the public international law of intellectual property); Audrey R. Chapman, *Approaching Intellectual Property as a Human Right: Obligations Related to Article 15(1)(c), U.N. ESCOR, 24th Sess., Agenda Item 3, U.N. Doc. E/C.12/2000/12* (2000), available at <http://documents-dds-ny.un.org/doc/UNDOC/GEN/G00/447/83/pdf/G0044783.pdf?OpenElement> (last visited Apr. 16, 2005).

10. ALI PRINCIPLES, *supra* note 4.

lems may be more likely to endure if they address the broad concerns voiced in this body of scholarship and commentary.

Not all aspects of intellectual property politics will be relevant to rules about ownership in cross-border contexts. Yet, the tension between efficient international protection of copyright on the one hand, and respect for territorial sovereignty, or comity, on the other, is likely to be particularly important to current and future debates. Efficiency-promoting ideas, which are often distilled as transnational norms,¹¹ are sometimes animated by a concern that insistence on strict territoriality can thwart robust enforcement and/or economic exploitation of intellectual property rights in cross-border contexts.¹² Set against efficiency claims are the principles of territoriality and comity. Territoriality and comity are common legal vehicles for expressing the political concerns embedded in the notion of sovereignty.¹³ Territoriality taps into deep concerns about “what’s ours to regulate.” Transnational or private international rules are often *meant* to override domestic policy choices and remove at least some¹⁴ of the scope that territoriality allows for expression of regulatory choices, but that does not stop people feeling resentful or angry about them. In a less emotionally freighted way, these concerns emphasize the normative connection between

11. Transnational norms are not the only candidates for more efficient management of intellectual property issues across international borders. *See generally* Dan L. Burk, *Virtual Exit in the Global Information Economy*, 73 CHI.-KENT L. REV. 943 (1998) (exploring methods for “privatizing” intellectual property, including technological self-help and contract).

12. *See, e.g.*, Adreas P. Reindl, *Choosing Law in Cyberspace: Copyright Conflicts on Global Networks*, 19 MICH. J. INT'L L. 799 (1998); Jane C. Ginsburg, *The Cyberian Captivity of Copyright: Territoriality and Authors' Rights in a Networked World*, 15 SANTA CLARA COMPUTER & HIGH TECH. L.J. 347 (1999).

13. *See generally* David J. Gerber, *Prescriptive Authority: Global Markets as a Challenge to National Regulatory Systems*, 26 HOUS. J. INT'L L. 287 (2004) (discussing how the modern global marketplace challenges the effectiveness of jurisdictional law).

14. *See* Graeme B. Dinwoodie & Rochelle Dreyfuss, *International Intellectual Property Law and the Public Domain of Science*, 7 J. INT'L ECON. L. 431 (2004) (exploring the scope provided by the TRIPS Agreement for domestic self-determination in the development of research policies).

domestic intellectual property laws and political accountability.¹⁵

Part II of my remarks discusses the tension and interrelationship between sovereignty and efficiency concerns in private international law doctrine in light of two recent decisions of the United States Supreme Court and the Supreme Court of Canada: *F. Hoffman-La Roche Ltd. v. Empagran*¹⁶ and *SOCAN v. Canadian Association of Internet Providers*.¹⁷ Part III turns to the specific issue of choice of law for copyright ownership, and examines contrasting approaches to this issue within the Anglo-American tradition. The approach adopted by U.S. courts is that the law with the closest relationship to the property and the parties determines copyright ownership.¹⁸ This “single governing law” approach contrasts with that adopted by an Australian federal court, which held that questions of ownership run with the law governing infringement.¹⁹ The latter approach has the potential for multiple laws to govern ownership when a copyright infringement action involves allegations of copyright infringement in multiple jurisdictions. I suggest that a single governing law approach to copyright ownership better accommodates both efficiency and sovereignty concerns than choice of law approaches that seek to apply all the various laws of the different nations in which a copyright work might be exploited without authorization. Most importantly, a single governing law approach can be justified as consistent with the concept of retaining a strong connection between the intellectual property laws that govern copyright ownership and the domestic policies of the nations for which these laws have greatest relevance. Part IV briefly concludes.

15. See generally Lea Brilmayer & Charles Norchi, *Federal Extraterritoriality and the Fifth Amendment Due Process*, 105 HARV. L. REV. 1217 (1992) (noting the possibilities for resentment following the exportation of American legal norms).

16. 542 U.S. 155, 124 S. Ct. 2359 (2004).

17. *Society of Composers, Authors and Music Publishers of Can. v. Canadian Ass'n of Internet Providers* [2004] 2 S.C.R. 427.

18. See *infra* Part III for further discussion of U.S. judicial approaches to choice of law.

19. This case is discussed further *infra* Part III.

II. SOVEREIGNTY AND EFFICIENCY

Two decisions last June from the highest courts of the United States and Canada illustrate some of the distinctions between “sovereignty-based” and “efficiency-promoting” approaches to international conflict of laws issues. The U.S. Supreme Court decision, *F. Hoffman-La Roche Ltd. v. Empagran*, was a decision about the extraterritorial reach of U.S. antitrust laws rather than intellectual property laws.²⁰ However, the ringing endorsement that the Court gave to “prescriptive comity” may resonate in other contexts, including intellectual property. The Supreme Court held that U.S. antitrust law could not be applied when the adverse effects of alleged anticompetitive behavior in foreign territories was distinct and separate from adverse domestic effects.²¹ The Court reasoned that extraterritorial application of U.S. law would impede different nations’ laws “work[ing] together in harmony—a harmony particularly needed in today’s highly interdependent commercial world.”²²

Given the rarity of antitrust cases in which domestic and foreign harms can be easily segregated, it is curious that the *Empagran* Court bothered to trumpet the territoriality of different nations’ commercial laws. The *Empagran* decision might be dismissed as merely an academic exercise with little practical application. The Court’s vehement championing of sovereignty interests may, however, hint at an emerging concern to confine U.S. laws within their proper territorial scope. Consider the following passage from Justice Breyer’s opinion:

Where foreign anticompetitive conduct plays a significant role and where foreign injury is independent of domestic effects, Congress might have hoped that America’s antitrust laws, so fundamental a component of our own economic system, would

20. *Empagran*, 124 S. Ct. at 2366. *Empagran* involved allegations of a price-fixing conspiracy by vitamin sellers around the world, leading to higher prices for purchasers of vitamins in the United States and in a number of foreign territories. After the domestic purchasers settled, five foreign purchasers from the Ukraine, Australia, Ecuador and Panama continued their antitrust claims. The Supreme Court held that while a purchaser in the United States could bring a Sherman Act claim, the Foreign Trade Antitrust Improvements Act of 1982 (FTAIA) barred the respondents’ claims with respect to the higher prices paid for vitamins in the foreign markets.

21. *Id.*

22. *Id.*

commend themselves to other nations as well. But, if America's antitrust policies could not win their own way in the international marketplace for such ideas, Congress, we must assume, would not have tried to impose them, in an act of legal imperialism, through legislative fiat.²³

In line with these ideas, Justice Breyer distinguished earlier Supreme Court decisions²⁴ on the basis that they did not focus explicitly on whether the claim sought to cure "only independently caused foreign harm."²⁵ The *Empagran* opinion suggests that earlier cases did not clearly perceive important territorial distinctions. The Court's decision implies that we need to look at modern cross-border commercial cases differently than in the past. Concepts such as "global harm," however resonant or supportive of efficiency-promoting solutions to transnational problems, may need to give way to analysis that focuses instead on distinct, territorially-based injuries.

The *Empagran* Court's deference to the legitimate interests of foreign nations, and its determination to hold Congress to this standard, contrasts markedly with the Court's 1952 decision in *Steele v. Bulova Watch*.²⁶ In *Bulova*, the only modern Supreme Court opinion on the territorial reach of U.S. intellectual property laws, the Court adopted an expansive approach to the legislative jurisdiction provided by the Lanham Act²⁷ and held that a district court was entitled to apply the Act to the defendant's conduct in Mexico.²⁸ Congress has not, of course, entirely won

23. *Id.* at 2369.

24. *Id.* Justice Breyer distinguished *Empagran* from *Timken Roller Bearing Co. v. United States*, 341 U.S. 593, 595 (1951), *United States v. National Lead Co.*, 332 U.S. 319, 325–28 (1947), and *United States v. American Tobacco Co.*, 221 U.S. 106, 171–72 (1911).

25. *Empagran*, 124 S. Ct. at 2370.

26. *See Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952). The Supreme Court did not mention *Bulova* in *Empagran*.

27. Lanham Trade-Mark Act of 1946, 15 U.S.C. §§ 1051–1122 (2002).

28. Recently, the United States Court of Appeals for the Ninth Circuit decided the mirror image of *Bulova*. In *Group Gigante Sa De CV v. Dallo & Co., Inc.*, 391 F.3d 1088 (9th Cir. 2004), which involved a claim of trademark infringement by an established Mexican supermarket chain against a California-based chain that had adopted the same name, the Ninth Circuit established a "famous marks" exception to the territoriality principle, holding that a foreign trademark owner may have superior rights in the United States, where a substantial percentage of consumers in the relevant American market is familiar with the foreign mark. *Id.* at 1098.

over the world in the marketplace of ideas about intellectual property law; full substantive harmonization of intellectual property laws has not occurred, notwithstanding concerted efforts toward that end.²⁹ *Empagran* appears to counsel reticence when considering choice of law approaches involving application of U.S. intellectual property laws in ways that would override foreign laws, lest those approaches *also* be characterized as legislative or judicial fiat. Unlike *Empagran*, findings of fact in *Bulova* supported the conclusion that the defendants' actions adversely affected U.S. commerce.³⁰ For present purposes, however, the interest in the case lies in the central issue in *Bulova*: interpretation of an important commercial law statute that is silent on its territorial reach³¹ to determine whether Congress intended it to apply to conduct in a foreign nation. The *Bulova* Court acknowledged that "the legislation of Congress will not extend beyond the boundaries of the United States unless a contrary legislative intent appears."³² However, this came quite late in the opinion, after the Court emphasized that Congress, in prescribing standards of conduct for American citizens, "may project the impact of its laws beyond the territorial boundaries of the United States."³³

Particularly telling are the differences between the two Courts' approaches to sovereignty interests of foreign nations. One of the key defenses mounted by Steele, the principal *Bulova* defendant, was that he had been first to secure registration of the "Bulova" trademark in Mexico. However, by the date of

29. In this context, of course, "harmonization" is not necessarily a neutral term. Depending on the context, "harmonization" may be a proxy for the ratcheting up of intellectual property protections. Hence, some scholars refer instead to "upward harmonization." See, e.g., Keith Aoki, *Considering Multiple and Overlapping Sovereignities: Liberalism, Libertarianism, National Sovereignty, 'Global' Intellectual Property, and the Internet*, 5 IND. J. GLOBAL LEGAL STUD. 443, 461 (1998).

30. *Bulova*, 344 U.S. at 284–86 (finding *inter alia* that "as result of the distribution of spurious 'Bulovas,' Bulova Watch Company's Texas sales representative received numerous complaints from retail jewelers in the Mexican border area whose customers brought in for repair defective 'Bulovas' which upon inspection often turned out not to be products of that company.").

31. See, e.g., Anna R. Popov, *Watering Down Steele v. Bulova Watch Co. to Reach Commerce Overseas: Analyzing the Lanham Act's Extraterritorial Reach Under International Law*, 77 S. CAL. L. REV. 705, 708 (2004).

32. *Bulova*, 344 U.S. at 285 (emphasis added).

33. *Id.* at 282.

the Supreme Court's decision, Mexico's highest court had upheld an administrative proceeding canceling the Mexican registration.³⁴ According to the Supreme Court, this meant that there was no conflict between Mexican and U.S. laws, and it removed the basis for arguing that application of the Lanham Act to conduct in Mexico would interfere with property rights granted by a foreign sovereign: "Where, as here, there can be no interference with the sovereignty of another nation, the District Court in exercising its equity powers may command persons properly before it to cease or perform acts outside its territorial jurisdiction."³⁵ Rhetorically, and perhaps analytically as well, the Court conflated the absence of defendant's private rights in the mark with the absence of any overarching concern of the foreign sovereign with its ability to administer its own trademark system.

Justice Breyer's *Empagran* opinion seems to have more in common with the dissenting Justices in *Bulova* than with the *Bulova* majority.³⁶ In his dissent, which Justice Douglas joined, Justice Reed objected that the application of the Lanham Act to acts done in Mexico "bring our legislation into conflict with the laws and practices of other nations, fully capable of punishing infractions of their own laws."³⁷ Absent "specific words," the dissenting opinion reasoned, federal legislation should not be interpreted to "reach Acts done within the territorial limits of other sovereignties."³⁸ Similar sentiments are echoed in *Empagran*'s insistence that statutes be construed in ways that allow different nations' commercial laws to work harmoniously together.³⁹

The Supreme Court of Canada's decision in *SOCAN v. Canadian Association of Internet Providers*,⁴⁰ an important recent copyright case, offers a further doctrinal contrast to *Empagran*'s

34. See Graeme W. Austin, *Trademarks on the Line: The Story of Steele v. Bulova*, in *INTELLECTUAL PROPERTY LAW STORIES* (Rochelle Dreyfuss & Jane Ginsburg eds., forthcoming 2005).

35. 344 U.S. at 289.

36. *Id.*

37. *Id.* at 292.

38. *Id.*

39. *F. Hoffmann-La Roche Ltd. v. Empagran S. A.*, 124 S. Ct. 2359, 2366 (2004).

40. *SOCAN* [2004] 2 S.C.R. 427.

insistence on constraining the extraterritorial reach of domestic commercial laws. A key issue in this long-running Canadian saga over who should be levied for music communicated via the Internet was how to determine when a communication occurs “in Canada.” The Supreme Court of Canada rejected the Canadian Copyright Board’s conclusion⁴¹ that a communication occurs in Canada only if it originates from a server located within Canada.⁴² The Court declined to hold that a communication to the public occurs in Canada only if its recipient public is also located in Canada. Instead, in line with international precedents,⁴³ it held that Canadian courts could exercise jurisdiction over communications to the public where there is a “real and substantial connection” between the communication and Canada.⁴⁴ Communication of copyright material could be, in the words of the Court, “both here and there.”

41. SOCAN Statement of Royalties [1999] 1 C.P.R. (4th) 417.

42. SOCAN [2004] 2 S.C.R. at 451.

43. See, e.g., *National Football League v. Prime Time 24 Joint Venture*, 211 F.3d 10 (2d Cir. 2000) (U.S. federal court has jurisdiction over transmissions of copyright material to Canada); *Los Angeles News Service v. Conus Communications Co.*, 969 F. Supp. 579 (C.D. Cal. 1997) (U.S. copyright breached when transmissions originating abroad are received in the United States). The Supreme Court of Canada also cited recent changes to Australian copyright law, which provide that “to communicate” means “make available online or electronically transmit (whether over a path, or a combination of paths, provided by a material substance or otherwise) a work or other subject matter” and that “to the public” means “to the public within or outside Australia.” Copyright Act 1968 (Austl.) No. 63 of 1968, § 10(1), as amended by the Copyright Amendment (Digital Agenda) Act 2000, Sch. 1, §§ 6, 16. The Court also cited Daniel J. Gervais, *Transmissions of Music on the Internet: An Analysis of the Copyright Laws of Canada, France, Germany, Japan, the United Kingdom, and the United States*, 34 VAND. J. TRANSNAT’L L. 1363, 1376 (2001) (concluding that “[c]ourts will likely assert jurisdiction not only over transmissions from France, but also transmissions into France that are alleged to cause damage.”).

44. SOCAN [2004] 2 S.C.R. at 455 (citing *Libman v. The Queen* [1985] 2 S.C.R. 178, 212–13 (*per La Forest J*)):

As I see it, all that is necessary to make an offence subject to the jurisdiction of our courts is that a significant proportion of the activities constituting that offence took place in Canada. As it is put by modern academics, it is sufficient that there be a ‘real and substantial link’ between an offence and this country

Id.

Accordingly, jurisdiction under Canadian copyright laws might extend to both communications received *in* and transmitted *from* Canada. The scope of jurisdiction, and potential liability, will depend on analysis of the facts of the individual case. According to the Court, the connecting factors that may be relevant for determining whether the connection to Canada is legally sufficient may include: the *situs* of the content provider, the host server, the intermediaries, and the end user.⁴⁵ Localizing the communication tort at home, so that cross-border communications to the public that implicate domestic copyright laws can occur both “here and there,” avoids—at least formalistically—the extraterritoriality problem. If, under *domestic* law, communication to the public can include every step on the way to transmitting the information *to* the public, the *lex fori*⁴⁶ can easily reach communications destined for a public population located within a foreign jurisdiction as well as—or, indeed, instead of—a public located in the jurisdiction of the forum court. In its analysis of this point, the Canadian Court acknowledged the possibility of duplicative liability—liability imposed by both the recipient and the transmitting state.⁴⁷ Recall that in *Empa-gran* this was exactly the kind of problem that Justice Breyer recognized, and sought to avoid, in the antitrust context. Rather than engaging with this issue directly, however, Canada’s Court instead stated that the responsibility for solving this problem lay with international lawmakers: “the answer lies in the making of international or bilateral agreements, not in national courts straining to find some jurisdictional infirmity in either State.”⁴⁸

An important doctrinal distinction between the two cases is that the Canadian Court’s concern was with localizing transnational communications, whereas the U.S. Court was dealing with choice of law issues once the legal wrong had been localized. As Professor Dinwoodie correctly points out in his contribution to this Symposium,⁴⁹ however, localization of harms as

45. *Id.* at 430.

46. *Lex fori* is the law of the forum; the law of the jurisdiction where the case is pending. BLACK’S LAW DICTIONARY (8th ed. 2004).

47. *SOCAN* [2004] 2 S.C.R. at 462.

48. *Id.*

49. Graeme B. Dinwoodie, 30 BROOK. J. INT’L L. 885 (2005) (transcript of symposium presentation).

domestic and adoption of the *lex fori* using choice of law techniques can have similar judicial results.⁵⁰ At a general level, determining whether foreign communications are “sufficiently connected” to the forum may share significant commonalities with an inquiry into whether foreign harms are “independent” from domestic harms. According to *Empagran*, foreign laws should be overridden only infrequently. In contrast, the Canadian Court seems to suggest that the risk of duplicative liability is something we must live with, at least until a public international law solution is developed.

III. CHOICE OF LAW FOR COPYRIGHT OWNERSHIP

How might the tension between sovereignty and efficiency be played out when developing choice of law rules for copyright ownership? At the outset, it is important to acknowledge the complexities in the notion of territoriality itself. The cases discussed in Part II hint at some of this complexity. *Empagran* seems to trumpet sovereignty values through its insistence on constraining the extraterritorial reach of United States antitrust law.⁵¹ Yet, if we view the case in the wider context of intellectual property rights, the holding might have some important extraterritorial effects. Viewed in light of the *real politik*s of international intellectual property laws, the holding in *Empagran* may be tantamount to announcing: “you’ve got a lot of American-styled intellectual property law, but we won’t use our antitrust laws to rein it in.” Thus, the jurisdictional reticence of the *Empagran* Court may affect (extraterritorially) the scope and character of intellectual property rights in other jurisdictions. In contrast, the approach to localization of copyright infringement in *SOCAN*⁵²—the Court’s apparent willingness to apply domestic law to the transmission of musical works to foreign publics—seems quite “extraterritorial.” Equally, however, jurisdictions whose substantive laws or approaches to enforcement allow for ready transmission of copyright works using

50. See Graeme W. Austin, *Copyright Across (and Within) Domestic Borders*, in INTERNATIONAL INTELLECTUAL PROPERTY AND THE COMMON LAW WORLD 105, 121–22 (Charles E. F. Rickett & Graeme W. Austin eds., 2000).

51. *F. Hoffmann-La Roche Ltd. v. Empagran S. A.*, 124 S. Ct. 2359, 2363 (2004).

52. *SOCAN* [2004] 2 S.C.R. 427.

digital networks *themselves* create extraterritorial effects. Since transmission of copyright works cannot yet be efficiently constrained at international borders, a nation's laws may have an extraterritorial effect if they result in transmission of works to other nations where their receipt constitutes unlawful act(s). *De facto* availability, even from foreign sources, has the potential to override domestic *de jure* prohibitions. Viewed in this broader context, the approach in *SOCAN* can be seen, perhaps more benignly, as facilitating the development of doctrinal responses to the extraterritorial effects of *other* nations' laws.

Later in my remarks, I shall briefly explore ways of approaching the notion of territoriality in the context of copyright ownership issues. First, however, it may be helpful to briefly describe the Anglo-American doctrine. Anglo-American cases have approached choice of law issues for copyright ownership in contrasting ways. The Second Circuit has held, in *Itar-Tass Russian News Agency v. Russian Kurier*,⁵³ that the law governing ownership of copyright is the law of the state with the most significant relationship with the property and the parties.⁵⁴ As the Copyright Act⁵⁵ does not contain a controlling provision,⁵⁶ the Second Circuit was self-consciously developing federal common law to deal with this cross-border issue.⁵⁷ The court also recognized that the law determining ownership could be different from that governing infringement.⁵⁸ The trend in U.S. in-

53. *Itar-Tass Russian News Agency v. Russian Kurier*, 153 F.3d 82 (2d Cir. 1998).

54. *Id.* at 90. The Second Circuit derived this principle from the RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 222 (1971).

55. Copyright Act of 1976, Pub. L. No. 94-553, 90 Stat. 2541 (codified at 17 U.S.C. §§ 101–803 (2000)).

56. Nor does the Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, 828 U.N.T.S. 221 (Paris revision, July 24, 1971) [hereinafter Berne Convention], available at http://www.wipo.int/treaties/en/ip/berne/pdf/trtdocs_wo001.pdf (last visited Mar. 28, 2005). See Jane C. Ginsburg, *Ownership of Electronic Rights and the Private International Law of Copyright*, 22 COLUM.-VLA J.L. & ARTS 165, 167–68 (1998) (“The [Berne Convention] does not supply a choice of law rule for determining copyright ownership,” but noting that there is an exception in the Berne Convention, Art. 14bis(2)(a): “Ownership of copyright in a cinematographic work shall be a matter for legislation in the country where protection is claimed.”).

57. See also *Foad Consulting Group, Inc. v. Musil Govan Azzalino*, 270 F.3d 821, 826 (9th Cir. 2001).

58. *Itar-Tass*, 153 F.3d at 89.

fringement cases, aside from the “predicate act” theory discussed below, is to apply the law of the place in which the acts constituting infringement occurred.⁵⁹ This is a familiar choice of law technique: different laws can apply to different issues in the litigation.⁶⁰ On the facts of the case, the law governing copyright ownership was Russian: “the works at issue were created by Russian nationals and first published in Russia.”⁶¹ However, because the unauthorized reproduction occurred in New York, the law governing the infringements was U.S. copyright law.⁶²

Some fourteen years before the *Itar-Tass* decision, the Full Federal Court of Australia, a court of broadly equivalent standing to a U.S. Circuit Court of Appeals, was seized of the same issue. Rejecting the analysis of the trial judge,⁶³ the Australian Federal Court in *Enzed Holdings Ltd. v. Wynthea Pty. Ltd.*⁶⁴ held that Australian law governed *all* issues in a case involving infringement in Australia of logos created in New Zealand, for New Zealand clients, by a New Zealand graphic designer.⁶⁵ Whereas New Zealand law would have vested copyright in the plaintiffs, as commissioners of the design,⁶⁶ Australian law contains no equivalent provision, leaving the plaintiffs without title to the copyright upon which to base the infringement action. The Australian Court’s analysis was fully reasoned on the own-

59. See, e.g., *Boosey & Hawkes Music Publishers, Ltd. v. Walt Disney Co.*, 145 F.3d 481 (2d Cir. 1998); *Silberman v. Innovation Luggage*, No. 01 Civ. 7109(GEL), 2003 WL 1787123 (S.D.N.Y. Apr. 3, 2003).

60. See, e.g., RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 222 cmt. d (1969) (“The courts have long recognized that they are not bound to decide all the issues under the local law of a single state.”).

61. *Itar-Tass*, 153 F.3d at 90.

62. See also *Silberman*, 2003 WL 1787123, at *35.

63. *Enzed Holdings Ltd. v. Wynthea Pty. Ltd.* (1984) ATPR 40-447.

64. *Enzed Holdings Ltd. v. Wynthea Pty. Ltd.* (1984) 4 F.C.R. 450.

65. *Id.* at 458. See also SUSY FRANKEL & GEOFF MCLAY, *INTELLECTUAL PROPERTY IN NEW ZEALAND* 64–65 (2002).

66. The Copyright Act, 1994 (N.Z.). Section 21(3) provides as follows:

Where – (a) A person commissions, and pays or agrees to pay for, the taking of a photograph or the making of a computer program, painting, drawing, diagram, map, chart, plan, engraving, model, sculpture, film, or sound recording; and (b) The work is made in pursuance of that commission, – that person is the first owner of any copyright in the work.

Id.

ership point. Indeed, unlike the Second Circuit's *Itar-Tass* rule, which is grounded in *general* conflict of laws principles relating to property, the Australian Court grounded its analysis in the Australian Copyright Act and accompanying regulations.⁶⁷ In particular, the Australian Court looked to those provisions that, consistent with the Berne Convention,⁶⁸ extend protection under Australian law to foreign authors. The Court found the Australian Copyright Act's extension of Australian copyright law to protect foreign authors was of plenary application.⁶⁹ Accordingly, it saw "no reason to exclude the Australian provisions relating to ownership of copyright."⁷⁰

As the contributions by Professors Richard Garnett⁷¹ and Graeme Dinwoodie⁷² to this Symposium explain, in a growing number of contexts, statutory directives already localize intellectual property questions. The U.S. Copyright Act's choice of law rule governing copyright in restored works provides an example: ownership is determined by "the author or initial right holder of the work as determined by the law of the source country of the work."⁷³ For the most part, however, courts are provided little direction on choice of law for copyright ownership. In the context of registered rights, resolution of ownership issues is likely to involve at least some action by local registers. The ALI Project proposes that the law to determine the initial title of registered rights be the law of "each country of registration."⁷⁴ This approach means that sovereignty and efficiency concerns coincide. Yet, a copyright's existence does not depend on the intervention of national or regional registers, but comes into being with an author's creative act. As a result, sovereignty and efficiency concerns are not so readily reconciled.

67. *Enzed*, 4 F.C.R. at 456–59.

68. Berne Convention, *supra* note 56.

69. *Enzed*, 4 F.C.R. at 458.

70. *Id.*

71. Richard L. Garnett, *Trademarks and the Internet: Resolution of International IP Disputes by Unilateral Application of U.S. Laws*, 30 BROOK. J. INT'L L. 925 (2005).

72. Dinwoodie, *supra* note 49.

73. 17 U.S.C. § 104A(b) (2005).

74. ALI PRINCIPLES, *supra* note 4, § 311(1).

A. Efficiency and Sovereignty Concerns

Supporting *Itar-Tass* are some obvious appeals to efficiency. Under *Itar-Tass*, only one law for copyright ownership need be ascertained. That said, as international collaborations increase, along with author mobility, it may become more difficult to apply the “closest relationship with the property and the parties” test with predictive certainty. Unlike the *Enzed Holdings* approach, under which rules on ownership run with the *lex protectionis* (i.e., the law of the country for which protection is claimed), it will not necessarily be possible to identify the applicable law with absolute certainty in advance. *Itar-Tass* makes choice of law for ownership issues much more of a judicial, fact-based inquiry.

This does not necessarily pose an insurmountable problem. The current draft of the ALI Project puts forward an elaborate list of principles to determine ownership in more complex cases.⁷⁵ These principles will assist decision-makers by covering a greater range of factual scenarios where determining the law with the closest connection with the property and the parties might be difficult. We should also not think that a territorialist approach, which creates the potential for different owners according to different laws, will always be simple to apply in practice. As Mireille van Eechoud points out, if a territorialist approach were multiplied across different jurisdictions, there would be no single law to which chain of title could be traced.⁷⁶

On the other hand, a single governing law approach may be inconsistent with broader sovereignty concerns. Since intellectual property rights have been traditionally conceptualized as territorial, identifying the law with the closest relationship to the parties and the *property* seems to beg the question of what “property” really means. By applying *one* law to the ownership issue, the *Itar-Tass* choice of law rule renders inoperative domestic copyright ownership laws of the places where the work is exploited.⁷⁷ Moreover, even though foreign law applied to the

75. *Id.* § 313.

76. MIREILLE VAN EECHOU, CHOICE OF LAW IN COPYRIGHT AND RELATED RIGHTS: ALTERNATIVES TO THE LEX PROTECTIONIS 178 (2004).

77. For tangible property, the law distinguishes physical items and the legal rights, but there is usually only one “thing” whose ownership need be determined. Even with other forms of intangible property, no national treat-

issue of initial title in *Itar-Tass*, in many other cases it seems quite likely, given global patterns of copyright consumption and production, that U.S. law will apply. Add to this the fact that U.S. courts have developed a choice of law theory for copyright infringement—the so called “predicate act” theory⁷⁸—that, in some contexts, seems to be tantamount to extraterritorial application of U.S. copyright principles to infringing conduct occurring in foreign territories. The result appears quite similar to the legal imperialism that the *Empagran* Court seemed so concerned to avoid.

Particular sensitivity about the impact of foreign laws on domestic property was recently manifest in an English case, in which the trial judge declared: “the concept of a world wide copyright is not acceptable as a matter of law.”⁷⁹ The comment was made in the context of a dispute involving different claims of ownership to the works of Cuban composers (after their initial assignment), a dispute that eventually reached the English Court of Appeal.⁸⁰ *Peer International Corp. v. Termidor Music Publishers Ltd.*⁸¹ involved competing claims to English copyrights in musical works composed by Cuban nationals. The copyrights had been assigned under contracts entered into in the 1930s and 1940s. A post-Revolutionary Cuban law purported to divest prior assignees of copyrights in Cuban music of their rights for all countries for which the copyrights had been assigned, unless the transfers had been approved by a Cuban government agency. The English Court of Appeal was required to determine whether the post-Revolutionary law or the earlier assignments governed ownership of copyright with respect to

ment principle equivalent to that mandated by the Berne Convention for copyrights gives rise to hundreds of different legal rights under foreign legal systems. *See* Berne Convention, *supra* note 56.

78. The “predicate act” theory provides that a U.S. court may apply U.S. law to provide monetary relief for copyright infringements that occur abroad, where a defendant has, within the United States, made an infringing copy that facilitated the foreign infringements. *See, e.g.,* Update Art, Inc. v. Modiin Publishing, Ltd., 843 F.2d 67 (2d Cir. 1988); Los Angeles News Service v. Reuters Television Int’l Ltd., 340 F.3d 926 (9th Cir. 2003).

79. *Peer Int’l Corp. v. Termidor Music Publishers Ltd.* [2002] Ch. 2675, [2002] All E.R. (D) 143, at para. 71.

80. *Peer Int’l Corp. v. Termidor Music Publishers Ltd.* [2004] 2 W.L.R. 849.

81. *Id.*

the exploitation of the compositions in England. Predictably, the Court held that English law governed.

Peer International involved foreign expropriation of domestic property, for which there are special rules.⁸² Nevertheless, the English judges' analysis suggests that their concerns over the effect of foreign laws on domestic English copyrights went deeper.⁸³ The Court was concerned with principles at the heart of the English legal system's domain over property situated *in* the United Kingdom. In support of the specific rule negating the effect of an attempt by a foreign sovereign to expropriate U.K. copyrights, the U.K. Court of Appeal identified a number of more general principles that precluded application of the Cuban law in the United Kingdom:⁸⁴ (1) the prohibition against extraterritoriality itself, (2) the "principle which favors the *lex situs* generally,"⁸⁵ and, most significantly, (3) the problem that "if extraterritorial effect is given to foreign property legislation, it can only be at the expense of English law affecting the same subject matter."⁸⁶

Giving effect to foreign law affecting local property would create tension with the principle that domestic statutes are "designed to fit in with each other."⁸⁷ The *Peer International* Court

82. DICEY & MORRIS ON THE CONFLICT OF LAWS 995 (13th ed. 2000). The U.S. District Court for the Eastern District of New York recognized this point recently in *Films by Jove, Inc. v. Beroy*, 341 F. Supp. 2d. 199 (E.D.N.Y. 2004), where it declined to defer to a ministerial directive of the Russian government that purported to change the ownership of a copyright license after judgment had been rendered by a U.S. Court. The earlier opinion is reported at 154 F. Supp. 2d. 156, *motion for reconsideration denied*, 250 F. Supp. 2d. 156 (E.D.N.Y.). The ALI Principles also address "Transfers by Operation of Law," and provide that for registered rights, the law of the country of registration governs such transfers. For unregistered rights, the Principles propose that such transfers are governed by the law of the country "for which protection is claimed." ALI PRINCIPLES, *supra* note 4, § 316.

83. Accordingly, the fundamental principles on which the English Court of Appeal drew for its analysis in *Peer International* suggest that the case cannot simply be analogized to § 201(e) of the U.S. Copyright Act, which holds most involuntary transfers of copyright to be ineffective. 17 U.S.C. § 201(e) (2005).

84. The English Court relied on an important decision by Lord Devlin in *Bank Voor Handel En Scheepvaart NV v. Slatford* [1953] 1 Q.B. 248, [1952] 2 All E.R. 956.

85. *Peer Int'l* [2004] 2 W.L.R. 849, at para. 37 (citing *Bank Voor Handel En Scheepvaart NV v. Slatford* [1953] 1 Q.B. 248, 257).

86. *Id.*

87. *Id.*

pointed out that “foreign legislation cannot be so designed, and it will generally be founded on a basis of property law very different from our own.”⁸⁸ The Court concluded:

[A] principle of private international law that allows property legislation to operate in the territory of another country, so far from being a principle which resolves the conflict of laws, will create a conflict which it will require the formulation of a new system to settle. There seems ... to be every reason ... for giving effect to the simple rule that generally property in England is subject to English law and to no other.⁸⁹

Informing the Court’s conclusion that the Cuban law was ineffective in the United Kingdom was a general concern that foreign law should not affect ownership interests in property situated within the forum.

B. Justifying Copyright Ownership Rules

One might think that copyright ownership issues in the transnational context perhaps can be seen to implicate domestic sovereignty interests to a lesser extent than substantive rules on infringement. Laws governing ownership do not, for instance, directly determine the availability or price of materials of culture in different nations. Ownership rules are about who benefits from the copyright in the work, and have less to do with the work’s availability to the public. They might, however, implicate incentives to create copyright works. Nevertheless, as *Peer International* illustrates, the link between copyright ownership and domestic sovereignty concerns can tap powerful rhetorical resources and ideological and practical concerns that may be invoked when foreign legal principles might override domestic policy choices. That is, even if the potential for “conflict” is likely to arise in a relatively narrow compass, and is likely to be confined to rules on commissioned works and works made for hire, it is possible to imagine how the perception of a foreign law’s usurpation of domestic policy choices about such matters could trigger more heightened rhetoric. Put another way, because “sovereignty-respecting” concerns provide a politically-resonant way to understand the legal and political issues

88. *Id.*

89. *Id.*

at stake, the perception that legal actors might ride roughshod over domestic policy choices will provoke cries of “these are *U.K.* copyrights!” or “these are *American* copyrights!,” and so on. This is the essence of several current political controversies surrounding the globalization of intellectual property.⁹⁰

In the Anglo-American tradition, there has perhaps been too much solicitude for sovereignty interests, particularly in the subject matter or legislative jurisdiction contexts. For instance, prior to the English Court of Appeal’s landmark 1999 decision in *Pearce v. Ove Arup*,⁹¹ English courts refused to exercise jurisdiction over cases involving allegations of foreign copyright infringement.⁹² In a line of twentieth-century Australian cases, beginning with an Australian High Court decision from 1903,⁹³ Commonwealth courts analogized intellectual property rights to land—a type of property that has long been viewed as intimately connected with the sovereign powers of the nation state.⁹⁴ Also, in many Commonwealth jurisdictions, infringement of foreign intellectual property rights foundered on the so-called “double actionability” or “*lex fori*” rule, which, broadly summarized, required the defendant’s tort to be actionable according to both the *lex fori* and the law of the place of commission of a tort.⁹⁵ Due to the territorial confines of intellectual property rights, foreign infringement could never be actionable

90. See generally Halbert, *supra* note 5.

91. *Pearce v. Ove Arup P’ship Ltd.* [1999] 1 All E.R. 769 (Eng. C.A.). The *Ove Arup* decision was recently applied in the cross-border context in *R Griggs Group Ltd. v. Evans* [2004] All E.R. (D) 155 (Eng.), *aff’d on other grounds*, [2005] E.W.C.A. 11 (Eng. C.A.). Sitting as Deputy Judge of the High Court, Peter Prescott Q.C. held that where an English Court has *in personam* jurisdiction over a defendant, the Court may require assignment of a copyright arising under a foreign law.

92. See *Tyburn Productions Ltd. v. Conan Doyle*, 1990 R.P.C. 185 (Ch. D.); *Def Lepp Music v. Stuart-Brown*, 1986 R.P.C. 273 (Ch. D.).

93. *Potter v. Broken Hill Proprietary Co.* (1906) 3 C.L.R. 479 (Austl.); *Norbert Steinhardt & Son Ltd. v. Meth* (1961) 105 C.L.R. 440 (Austl.).

94. The traditional common law rule was that a domestic court had no jurisdiction over disputes involving foreign land in which rights over the land required determination. See *British South Africa Co. v. Companhia de Moçambique* [1893] 1 App. Cas. 602 (Eng. P.C.).

95. Compare *Boys v. Chaplin* [1971] 1 A.C. 356, 379, 389 (U.K.) (appeal taken from Eng.), with *Red Sea Insurance Co. v. Bouygues S.A.* [1995] 1 A.C. 190 (P.C. 1994) (U.K.) (appeal taken from Hong Kong) (adopting greater flexibility in the common law version of the rule).

according to the *lex fori*. English copyright law, for instance, does not make unauthorized exploitation of a copyright work a legal wrong in foreign territory.⁹⁶

In the Commonwealth, the requirement that foreign torts be actionable according to the *lex fori* has mostly been jettisoned, replaced by the *lex loci* as the dominant choice of law rule.⁹⁷ Dean Anne Marie Slaughter cites this development as indicative of a more sensitive transnationalism that is developing in the thinking of national courts.⁹⁸ The rule analogizing intellectual property rights to land, which itself reflects a hypersensitivity to foreign sovereignty interests, gave rise to ironic results: *respect* for these “special” property rights created under the laws of a foreign sovereign risks rendering them unenforceable. Concern for the interests of foreign sovereigns in crafting intellectual property laws may thwart the very policies that conflicts rules were meant to respect. It is impossible to precisely determine what influenced the English Court of Appeal’s departure from the orthodox view in *Ove Arup*.⁹⁹ Their Lordships’ analysis of the common law justiciability issue was entirely, and meticulously, doctrinal. Whatever the motivation, the English court’s determination to jettison their earlier aggregation of sovereignty concerns to conflicts rules is a very welcome development. The approach to justiciability adopted by the English Court of Appeals *better* respects sovereignty interests in foreign intellectual property rights. Additionally, by facilitating the consolidation of proceedings, it is more efficient.

As an attempt to accommodate some of the broader political concerns arising in intellectual property law today, I would advocate localizing copyright ownership issues broadly in line with the Second Circuit in *Itar-Tass*. I advocate this approach not so much because the *Itar-Tass* approach will facilitate more

96. See generally Graeme W. Austin, *The Infringement of Foreign Intellectual Property Rights*, 113 LAW Q. REV. 321 (1997).

97. In major Commonwealth jurisdictions, the *lex fori* rule has largely been abandoned. For example, the United Kingdom has enacted the Private International Law (Miscellaneous Provisions) Act, 1995, c. 42 (Eng.). Other jurisdictions have abandoned this rule through case law. See, e.g., *Tolofson v. Jensen* [1994] 3 S.C.R. 1022 (Can.); *Regie Nationale des Usines Renault SA v. Zhang* (2002) 210 C.L.R. 491 (Austl.).

98. ANNE MARIE SLAUGHTER, A NEW WORLD ORDER 90 (2004).

99. [1999] 1 All E.R. 769 (Eng. C.A.).

efficient licensing and tracing of title, although this is important, or because it is broadly in line with choice of law principles for other types of property. Rather, I think the *Itar-Tass* approach can be adapted in a way that is sensitive to the role of nation states in determining the real life societal contexts in which intellectual property is created.

Focusing on this kind of concern might enrich our understanding of territoriality, and encourage us, at least in the intellectual property context, to view territoriality in less formalistic terms. The approach adopted by the *Enzed Holdings* court might appear to be respectful of domestic sovereignty interests. It would allow the law of country X to govern ownership “in” country X, country Y’s laws to govern ownership “in” country Y, and so on. On the other hand, it may have the practical effect of overriding some of the important social policy choices reflected in the law of the place where a work was first created. Of course, intellectual property exploitation is now a global concern. Nevertheless, choice of law rules for copyright ownership should be crafted to take into account the reality that different nations’ social policies, such as the education system, employment laws, subsidies for artistic creativity, development of communication networks, and idiosyncratic exceptions and defenses in the copyright system itself, constitute the material circumstances in which copyright works are created.¹⁰⁰ The material circumstances of production fuel authors’ “creative sparks.”

Similar concerns seem to be reflected in U.S. rules in the work-for-hire context, which designates as employer (hence usually the “owner” of the work) the party who controls the manner and means of production.¹⁰¹ Domestic social policies are, at least partly, responsible for the material circumstances—the “manner and means”¹⁰²—in which authorial crea-

100. I develop this argument more fully in Graeme W. Austin, *Valuing “Domestic Self-Determination” in International Intellectual Property Jurisprudence*, 77 CHI.-KENT L. REV. 1155 (2002).

101. See *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989) (invoking common law agency principles to determine when a creator is a worker for hire).

102. *Id.* (“In determining whether a hired party is an employee under the general common law of agency, we consider the hiring party’s right to control the manner and means by which the product is accomplished.”).

tivity occurs. Furthermore, because many issues are likely to arise in the employment context, we can expect local or regional rules to reflect domestic traditions, or hard-won compromises, about the appropriate balance of power between employees and employers when confronting the issue of ownership of the fruits of creativity. Accordingly, I would advocate adapting the *Itar-Tass* rule, while retaining the general premise that a single governing law should apply to cross-border ownership issues. In many instances, we would likely see no difference in the application of the “closest relationship to the property and the parties” rule. Nevertheless, by focusing on the place with the closest relationship with the *production of the work*, we would be crafting solutions to international conflict of laws problems that evince broad concern for the connection between domestic sovereignty and intellectual property regimes. A more nuanced approach to territoriality, one that is informed by a robust sense of intellectual property politics, might take these kinds of concerns into account when crafting specific rules.¹⁰³

In earlier writings, I have argued that application of the *lex protectionis* to infringement questions is justified, in part, because intellectual property rights bear the lineaments of societal choices and struggles over access to the materials of culture.¹⁰⁴ I again suggest, therefore, that the incidents of property rights should be determined by the law of the nation whose members bear the costs of enforcement.¹⁰⁵ Yet, place of exploitation does not so obviously have a claim to determine legal issues relating to the initial creation of the work. Conversely, sensitivity to the material circumstances of production in the crafting of

103. Where several authors are involved, as may be the case with some outsourcing arrangements, and the issue cannot be determined by reference to applicable contractual terms, it may be necessary to develop subsidiary rules. One possibility would be to focus on the contribution of the “dominant” author. This principle is well-known in U.S. joint authorship doctrine. *See, e.g., Thomson v. Larson*, 147 F.3d 195, 202 (2d Cir. 1998) (noting the importance of the intentions of the “dominant” author when ascertaining whether a work is a work of joint authorship). Perhaps where separately identifiable copyright protected contributions to a joint work cannot be identified, and the issue is not governed by contract, an appropriate rule might be to adopt the law of the place where the dominant author did most of the creative work.

104. *See, e.g., Graeme W. Austin, Social Policy Choices and Choice of Law for Copyright Infringement in Cyberspace*, 79 OR. L. REV. 575 (2000).

105. *Id.* at 614.

conflict of law rules seems to better accommodate the political concerns that are grounded in the connection between domestic politics and intellectual property.

IV. CONCLUSION

Academics are of course motivated to find the “right” answer to doctrinal controversies. Yet, academic deliberations are seldom, if ever, dispositive. Usually, our interventions are more modest: we make contributions to ongoing debates. In some respects, the ALI Project is similar. Because the ALI Project is not posing as a “treaty,” and has no pretensions of being “the” answer to conflict of laws controversies, or of being *imposed* on the global legal system, the project’s outcomes will more likely be a *contribution* to emerging conversations about how best to craft private law principles for transborder disputes involving intellectual property rights. It will be but one (albeit important) contribution to the rich dialogue that is occurring among jurists in different nations about international law problems.¹⁰⁶

Instead of always attempting to “run to ground” the arguments that can be made in favor of, or against, any particular resolution of a private international law controversy, it might be productive to consider doctrinal proposals in light of broader intellectual property politics. At least some of the ALI Project’s audience, including its most vigorous interlocutors, are likely to be deeply involved in the political debates that now inform both domestic and international intellectual property lawmaking. When we turn our minds to international conflict of laws controversies, it may thus be important to engage with doctrinal issues in ways that anticipate and respond to critiques that are likely to be informed and shaped by these broader political concerns. Crafting appropriate choice of law rules for copyright ownership forms a small part of the monumental task of developing much-needed private international law of intellectual property. Even so, attempting to justify a choice of law rule for copyright ownership with reference to the material circumstances of production of works of authorship might be suggestive of ways of engaging with broader political concerns that

106. See generally SLAUGHTER, *supra* note 98.

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will inevitably arise as other parts of the ALI Project come to be scrutinized.

TRADEMARKS AND THE INTERNET: RESOLUTION OF INTERNATIONAL IP DISPUTES BY UNILATERAL APPLICATION OF U.S. LAWS

*Richard L. Garnett**

I. INTRODUCTION

In this Symposium, we have had contributions from a number of scholars addressing the issue of how to resolve transnational, intellectual property (IP) disputes. According to one view, the development of internationally accepted principles of both jurisdiction and applicable law would assist courts in selecting a single forum and governing law in an IP dispute.¹ It is hoped that such an approach would achieve uniform outcomes from national courts with respect to a single set of facts. A more direct solution to transnational IP disputes might be to harmonize the national substantive laws themselves, so that each state applies the same law of, for example copyright, regardless of where the events occurred or the nationality of the parties.² In the case of territorially delimited IP rights, however, harmonization of domestic law is only a partial remedy because of the competing national interests involved.³

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¹ See, e.g., AMERICAN LAW INSTITUTE, INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW AND JUDGMENTS IN TRANSNATIONAL DISPUTES (Preliminary Draft No. 3, 2005) [hereinafter ALI PRINCIPLES, Draft No. 3]. The Brooklyn Law School Symposium focused on Preliminary Draft No. 3, which was made available to the participants in October 2004.

2. JAMES J. FAWCETT & PAUL TORREMANS, INTELLECTUAL PROPERTY AND PRIVATE INTERNATIONAL LAW 460 (1998).

3. For example, even if Australia and the United States had identical trademark laws, the fact that each country grants its own trademark right for its sphere of territorial operation means that two rights-holders, one under U.S. law and one under Australian law, would still conflict when one rights-holder seeks to use its mark in the other's territory.

What may be needed, more dramatically, is the creation of a single, transnational, IP right similar to the European Union (EU) Community Trademark⁴ and the proposed EU Community Patent.⁵ Outside of Europe, however, there has been little progress towards this objective. In fact, the current differences in national trademark laws suggest that achievement of such a goal in the near future is unlikely.

Recently, however, other forces of convergence have emerged in the area of intellectual property. First, the placement of IP matters within the treaty framework of the World Trade Organization, via the development of multinational panels to review member compliance with the TRIPS Agreement,⁶ is likely to have a harmonizing effect on domestic laws.⁷ Second, the emergence of borderless information technology has challenged the notion of regulation by disparate domestic laws that, at least with respect to IP, are often territorial in application. In particular, the volume and intensity of transnational conflicts has increased with the rise of the Internet, and these disputes are exposing the inadequacy of existing domestic IP laws.⁸

The object of this paper is to explore a "third path" between the conflict of laws and harmonization approaches, which can be described as the unilateral application of domestic law to

4. Council Regulation 40/94 of 20 December 1993 on the Community Trademark 1994 O.J. (L 1) 1.

5. Commission Proposal for a Council Regulation on the Community Patent, COM(00)412 final at 177.

6. Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex IC, LEGAL INSTRUMENTS—RESULTS OF THE URUGUAY ROUND vol. 31, 33 I.L.M. 81 (1994).

7. AMERICAN LAW INSTITUTE, INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW AND JUDGMENTS IN TRANSNATIONAL DISPUTES 20 (Preliminary Draft No. 2, 2004) [hereinafter ALI PRINCIPLES, Draft No. 2].

8. International arbitration mechanisms are emerging to address this inadequacy. See, e.g., Internet Corporation For Assigned Names and Numbers [hereinafter ICANN], Uniform Domain Name Dispute Resolution Policy, available at <http://www.icann.org/udrp/udrp-policy-24oct99.htm> (Oct. 24, 1999) [hereinafter UDRP] (under which approved arbitration panels apply a form of supra-national law not necessarily tied to any domestic legal system). December 1, 1999 marked the first day that complaints could be lodged under the policy. ICANN, Timeline for the Formulation and Implementation of the Uniform Domain-Name Dispute-Resolution Policy, available at <http://www.icann.org/udrp/udrp-schedule.htm> (last visited Mar. 22, 2005).

transnational disputes. The context in which unilateralism has been most manifest is in the area of Internet trademark disputes; this will be the focus of the present discussion.⁹ In particular, I argue that a unilateralist approach, as evidenced by the U.S. application of the Anticybersquatting Consumer Protection Act (ACPA) of 1999,¹⁰ is appropriate in cases involving cyber-piracy, but not in situations where only good faith use of a trademark is involved. In Part II, I briefly discuss general jurisdictional and applicable law issues and review some pre-ACPA decisions. Part III looks at the application of ACPA in two contexts: cyber-piracy cases and those cases involving a good faith use of a trademark right. This Article then concludes with a discussion of the U.S. treatment of foreign rights-holders.

It is important to clarify what is meant by “unilateralism” in this Article. The idea here is that courts apply national trademark or unfair competition law to disputes with a substantial foreign element, without adequate regard for, or consideration of, the dispute’s transnational nature. While traditional conflict of laws analysis imposes preconditions and restraints at both the jurisdictional and applicable law stages, under a unilateralist approach, there are minimal hurdles imposed. Many national conflict of laws systems are premised, at least in part, on respect for the adjudicative competence and territorial sovereignty of other states.¹¹ Accordingly, the jurisdictional and applicable law principles of most countries attempt to accommodate the interests of foreign states and defendants, while preserving the interests of the forum state and its local residents.¹²

9. While the presence of unilateralism in the area of Internet trademark disputes may simply be a reflection of the volume of such cases in recent years, it may also be part of a broader trend that will appear in other contexts.

10. 15 U.S.C. § 1125(d) (1999) (Section 1125 is generally referred to as the Lanham Act).

11. See 1 ALBERT V. DICEY & JOHN H.C. MORRIS, DICEY AND MORRIS ON THE CONFLICT OF LAWS 5–7 (Lawrence Collins ed., 13th ed. 2000) [hereinafter DICEY & MORRIS] (describing concept of “comity”). The idea that a court should apply the law or seek the jurisdiction with the “closest connection” to the parties and the dispute has been increasingly influential in jurisdiction and applicable law doctrine in Europe and the United States. See EUGENE F. SCOLES & PETER HAY, CONFLICT OF LAWS 114 (3rd ed. 2000) [hereinafter SCOLES & HAY].

12. DICEY & MORRIS, *supra* note 11, at 4–5.

It follows, therefore, that it would be inappropriate for a national court to simply assume jurisdiction, or apply local law in a transnational case, without adequately assessing the relevant foreign interests.

In the context of transnational Internet disputes involving trademarks, however, courts and legislatures have, on occasion, sought to apply domestic law without the usual preconditions or restraints imposed to protect foreign interests.¹³ The application of ACPA by U.S. courts is one such example of this kind of unilateralism.¹⁴ The consequences of such an approach are twofold. First, trademark laws of certain states are likely to have a wide, possibly global, impact at the expense of other states, whose capacity to apply their own laws and protect their own citizens is restrained. In effect, a supranational trademark regime may be created, not pursuant to a transnational process of harmonization but, rather, due to unilateral national action. Second, such action may inspire retaliation by other states as they also choose to abandon their jurisdictional and applicable law methodologies in favor of direct, unilateral application of local laws to cases with a foreign element. These consequences would have a seriously detrimental effect on the global trademark system as a whole.

A. The Kinds of Transnational Disputes that Arise from the Use of Trademarks on the Internet

A common factual context which has given rise to this problem is where a local plaintiff, who is the holder of trademark rights under the law of the forum state, brings an action against a foreign party who has no physical presence in the forum. The foreign-based party operates an Internet Web site, typically hosted on a foreign server, that uses the plaintiff's mark in the text of its site and/or as its domain name. The fo-

13. Note that the problem of the clash between domestic trademark laws and the global Internet domain name system has been discussed widely in the scholarly literature. See, e.g., Graeme B. Dinwoodie, *Essay: (National) Trademark Laws and the (Non-National) Domain Name System*, 21 U. PA. J. INT'L ECON. L. 495 (2000).

14. It should be noted, however, that evidence of this unilateral tendency is not confined to the practice of the United States and, even in those legal systems where evidence of the approach is found, it is not an approach that is consistently or universally applied.

rum court is confronted with two questions in this context: whether to exercise personal jurisdiction over the foreign defendant and, if so, what law to apply to the action. While both inquiries have the capacity to recognize and accommodate foreign interests, in a number of cases, these interests are diminished.

In considering the degree to which national courts should take into account foreign interests in Internet trademark litigation, it is helpful to identify a number of variations on the broad example given above. The first situation is where a plaintiff and defendant are each using the same or similar mark on the Internet within their specific national territories, under the protection of local trademark law, and are separately targeting a predominantly local customer audience. A second variation is where the plaintiff and defendant are using the same mark, again protected by local law in their respective places of residence but one party (or both) is soliciting customers outside its borders in order to establish an international market for its products. A third situation is where the defendant is using an internationally-known mark on the Internet, either with the intent to exploit the plaintiff's goodwill for the benefit of its own business or to merely extort money from the trademark owner; this is the classic "cybersquatting" situation.

In considering the application of domestic rules of personal jurisdiction and applicable law in Internet trademark cases, it is important to distinguish between the differing factual matrices referred to above. A more unilateral or expansive approach to applying national law with less regard for foreign interests is arguably more defensible in the case of a person using a mark for cybersquatting than in the case of a person using the mark, in good faith, in predominantly local trade. Consequently, while it will be argued in this Article that foreign interests and elements should be taken into account in Internet trademark litigation, not all interests are entitled to the same degree of deference.

II. FIRST THINGS FIRST: JURISDICTION AND TERRITORIAL SCOPE

A. Personal Jurisdiction in Internet Cases

In the United States, there is evidence of both unilateralism and restraint in cases involving trademark and unfair competition claims arising from Internet activity. A clear example of

U.S. restraint is the test used by U.S. courts to determine personal jurisdiction in Internet disputes.¹⁵

U.S. courts recognize two broad categories of personal jurisdiction in suits against foreign defendants, namely, "specific" and "general" jurisdiction.¹⁶ Regarding specific jurisdiction in the Internet context, a defendant will be found to have the requisite "minimum contacts" if it purposefully directed electronic activity into the state with the intent of engaging in business or other interactions with forum residents.¹⁷ Mere establishment of an interactive Web site, through which the defendant has the capacity to exchange information with forum residents is insufficient; there must be a clear intention to target and solicit customers from such persons.¹⁸

This test has generally proven effective in protecting foreign defendants in Internet trademark cases from excessive exposure to U.S. liability. For example, in a recent Third Circuit decision, *Toys "R" Us, Inc. v. Step Two, S.A.*,¹⁹ a Spanish company was found not to have targeted residents in New Jersey where the content of its Web site was entirely in Spanish, prices were in Pesetas or Euros, merchandise could only be shipped to

15. It is not the purpose of this Article to examine in detail the law on personal jurisdiction but, rather, to demonstrate that the current U.S. jurisdictional tests are protective of the rights of foreign defendants and of the "adjudicative space" of foreign tribunals.

16. Specific jurisdiction is based on the "minimum contacts" between the defendant's actions and the forum state. *Int'l Shoe Co. v. Washington*, 326 U.S. 310, 316 (1945). *See also Asahi Metal Indus. Co. v. Superior Court of California*, 480 U.S. 102, 108–09 (1987). General jurisdiction exists, regardless of the cause of action, where the defendant is engaged in "continuous and systematic" activity in the forum state. *Helicopteros Nacionales de Colom., S.A. v. Hall*, 466 U.S. 408, 414 (1984).

17. *ALS Scan, Inc. v. Digital Serv. Consultants, Inc.*, 293 F.3d 707, 714 (4th Cir. 2002); *Neogen Corp. v. Neo Gen Screening, Inc.*, 282 F.3d 883, 890 (6th Cir. 2002); *Mink v. AAAA Dev. LLC*, 190 F.3d 333, 337 (5th Cir. 1999) (passive Web site insufficient for personal jurisdiction); *Cybersell, Inc. v. Cybersell, Inc.*, 130 F.3d 414, 420 (9th Cir. 1997) (same as *Mink*).

18. *See ALS Scan, Inc.*, 293 F.3d at 714. For the contrary view that the mere availability and use of an interactive, transaction-oriented Web site is sufficient for personal jurisdiction, see *Gorman v. Ameritrade Holding Corp.*, 293 F.3d 506, 510–13 (D.C. Cir. 2002).

19. *See generally Toys "R" Us, Inc. v. Step Two, S.A.*, 318 F.3d 446 (3d Cir. 2003).

addresses within Spain, and it was not possible for U.S. residents to register with the defendant's online club.²⁰

Another basis for specific jurisdiction under U.S. law is the "effects" test, which provides that a U.S. court may exercise jurisdiction where a foreign defendant intentionally aims its conduct at the forum state.²¹ This test has been applied in the Internet trademark context by the Ninth Circuit to secure jurisdiction over a defendant who registered a trademark belonging to a plaintiff as a domain name, and then tried to sell it back to the company in an extortive fashion.²² Such clear and deliberate cyber-piracy was considered by the court to have been intentionally directed at the forum state.²³ This basis of jurisdiction is likely to be most useful in the case of abusive or bad faith uses of a mark.

U.S. law also recognizes personal jurisdiction over foreign entities where "general" jurisdiction is found to exist. In this situation, the plaintiff's claim may be unrelated to the defendant's contacts with the forum. Consequently, a more onerous test applies than for specific jurisdiction; namely, the plaintiff must show that the defendant has "continuous and systematic" contacts with the forum.²⁴ Satisfaction of such a test in the Internet context will require a defendant to have clearly targeted forum residents with its Web site, such as where the defendant engaged in business with such persons and entered into contracts there.²⁵

B. Territorial Scope of the Applicable Law

Once a U.S. court has determined that personal jurisdiction exists in an action involving foreign entities, it must then decide which law to apply in adjudicating the dispute. In the context of general torts, many U.S. courts apply a version of the "interests analysis" doctrine, that is, they identify the state that has the greatest interest in having its law applied to the particular

20. *Id.* at 454.

21. *Calder v. Jones*, 465 U.S. 783, 791 (1984).

22. *Panavision Int'l, L.P. v. Toeppen*, 141 F.3d 1316, 1318 (9th Cir. 1998).

23. *Id.*

24. *Helicopteros*, 466 U.S. at 411–12.

25. *Gator.com Corp. v. L.L. Bean, Inc.*, 341 F.3d 1072, 1075 (9th Cir. 2003); *Lakin v. Prudential Sec., Inc.*, 348 F.3d 704, 712 (8th Cir. 2003).

issue and weigh the competing entitlements of the other state.²⁶ In theory, U.S. law would only apply where the court found that the U.S. interest prevailed over that of the foreign state.

In trademark litigation, however, this traditional approach for selecting the applicable law has not been followed. Instead, where a plaintiff seeks relief for trademark infringement under the Lanham Act,²⁷ courts examine whether the case fits within the territorial scope of the Act, rather than follow a choice of law analysis.²⁸ Consequently, the only law that is relevant before the court is the Lanham Act, which is either found to apply, or not, as a matter of statutory construction.

It is not entirely clear why traditional applicable law analysis has been avoided by U.S. courts in the trademark context, although writers have noted that this is consistent with the approach taken in other countries based on the concept of *lex loci protectionis* (the law of the place where protection is claimed).²⁹ Pursuant to this view, courts are directed in IP cases to apply the law invoked by the plaintiff to the exclusion of any other possible law. Such an approach, however, does not necessarily mean that foreign elements and interests cannot be considered in the inquiry. It would only be, for example, where U.S. courts were to apply the Lanham Act to the conduct of a foreign defendant, with little or no link to the United States, that claims of excessive unilateralism could be made.

The historical record of the U.S. courts in applying the Lanham Act to foreign commerce is interesting. In *Steele v. Bulova Watch Co.*, the U.S. Supreme Court applied the Lanham Act to the defendant, who made watches under a local trademark in Mexico, and subsequently sold them in the United States in breach of the plaintiff's mark.³⁰ The court gave three

26. The majority of states adopt an analysis derived from the American Law Institute's Second Restatement. See RESTATEMENT (SECOND) OF CONFLICT OF LAWS § 6 (1971) [hereinafter RESTATEMENT (SECOND)]; SCOLES & HAY, *supra* note 11, at 79–102.

27. 15 U.S.C. § 1125(a) (1999).

28. See, e.g., *Steele v. Bulova Watch Co.*, 344 U.S. 280, 283–84 (1952).

29. Graeme B. Dinwoodie, *Private International Aspects of the Protection of Trademarks*, Paper Presented at the World Intellectual Property Organization (WIPO) Forum on Private International Law and Intellectual Property (Jan. 30–31, 2001) (WIPO Doc. No. WIPO/PIL/01/4 2001), available at <http://www.wipo.int/pil-forum/en/documents>.

30. *Bulova Watch Co.*, 344 U.S. at 285.

reasons for applying U.S. law: first, the defendant was an American citizen and accordingly, Congress had wide power to legislate with respect to his acts; second, the effects of the defendant's conduct were felt in the United States, where some of the infringing items were sold; and third, at the time of the court hearing, the defendant had lost its Mexican trademark rights so there no longer existed any conflict between U.S. and foreign trademark rights.³¹

While courts in the pre-Internet era were cautious in giving the Act an extraterritorial operation where the defendant was not a U.S. citizen, the advent of new technologies appears to have altered this position dramatically.³² Indeed, it should come as no surprise that technology, which renders the difference between the domestic and the foreign illusory,³³ should expose the limitations of the *Bulova* test. There is a much greater opportunity with the Internet for the domestic use of a trademark to spill across borders and impact commerce elsewhere.³⁴ Yet, there seems to be no scope under *Bulova* to apply U.S. law where the defendant is a foreign national and, in addition, in the Internet context, it may be very difficult to precisely quantify the degree of harm on the plaintiff's U.S. commerce.

Furthermore, the *Bulova* test draws no distinction between the various types of trademark infringement in terms of the defendant's conduct and intent. Cyber-piracy arguably stands apart from instances where a party merely uses a mark on the Internet to expand into international markets. However, according to *Bulova*, principles of territorial connection are applied in a neutral fashion to determine the scope of operation of U.S. trademark law, without regard to whether the defendant

31. *Id.* at 286–89.

32. In the majority of U.S. decisions not involving Internet infringement, courts have been reluctant to grant relief under the Lanham Act unless the defendant is a U.S. citizen and there is a substantial effect on U.S. commerce. *See Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 643–44 (2d Cir. 1956) (refusing to apply the Act where the U.S. owner of a U.S. mark sought to restrain the use of the mark in Canada by a Canadian resident who owned the Canadian registration for the same mark and was selling similar products there).

33. *See generally* Uta Kohl, *Eggs, Jurisdiction and the Internet*, 51 INT'L & COMP. L.Q. 555 (2002) (discussing the limitations of the *Bulova* test).

34. Jack L. Goldsmith, *Against Cyberanarchy*, 65 U. CHI. L. REV. 1199, 1240–42 (1998).

was acting in good faith or abusively. Given that bad faith use of marks has increased enormously since the advent of the Internet, a test based on pure territorial connection is outdated and inadequate.³⁵ The *Bulova* principle does remain useful, however, where a defendant only intends to use a mark within a limited geographical area, and has acquired local rights' protection for that purpose. It would be unjust if such a person were unduly penalized for unforeseeable and uncontrollable spillover of its use into other states.

Not surprisingly then, U.S. courts have responded to the rise of cybersquatting by extending the scope of the Lanham Act so that it may apply to both foreign and U.S. defendants, even where there has been a less than substantial effect on U.S. commerce. The courts appear to have decided that a bad faith user has, by virtue of its conduct, forfeited any right to exemption from the application of U.S. trademark law.³⁶ Unfortunately though, in the judiciary's enthusiasm to catch cybersquatters through expansive application of U.S. law, some "collateral damage" has occurred. In particular, there have been cases where a foreign entity, with little or no connection to the United States, using its mark in good faith within its territory, has been held subject to the Lanham Act.³⁷

In one notorious case, *Cable News Network L.P. v. CNNNews.com*,³⁸ a Chinese resident who registered a domain name for a site accessible in the United States was found to be subject to the Act, despite the fact that his site was a news ser-

35. To some extent, this outcome is a result of the policies adopted by ICANN for registration in the generic top-level domains, such as (.com), where domains have been allocated on a "first come, first served" basis without any regard for whether the registrant has a right to use such a name under trademark law. See ICANN, *Top-Level Domains*, at <http://www.icann.org/tlds> (last visited Mar. 16, 2005). This approach is in contrast to the procedure adopted in most national registries for the grant of country-level domains, which require some prior connection between the registrant and the name. See, e.g., *infra* note 65.

36. See, e.g., *Hollywood Entertainment Corp. v. Hollywood Entertainment, Inc.*, 1999 U.S. Dist. LEXIS 6466, *11 (N.D. Cal. May 4, 1999); see also *Toys "R" Us, Inc. v. Abir*, 1997 U.S. Dist. LEXIS 22431, *11 (S.D.N.Y. Dec. 19, 1997).

37. See, e.g., *Euromarket Designs, Inc. v. Crate & Barrel Ltd.*, 96 F. Supp. 2d 824 (N.D. Ill. 2000); *Cable News Network L.P. v. CNNNews.com*, 177 F. Supp. 2d 506 (E.D. Va. 2001), *aff'd in part*, 56 Fed. Appx. 599 (4th Cir. 2003).

38. *Cable News Network L.P.*, 177 F. Supp. 2d at 517-18.

vice entirely in the Chinese language, with 99.5% of its users located in Chinese cities, and which transacted no business within the United States. The court applied the Act for a number of reasons. Generally, it argued the Act was applicable because of the global nature of the Internet. It also found the significant number of Chinese speakers in the United States, and the fact that the (.com) domain is essentially an American top-level domain, to be relevant. Last, it noted that CNN is an internationally famous mark. In the court's view, the accessibility of the mark in the United States and, accordingly, the risk of confusion with the plaintiff's mark, created an effect on U.S. commerce.³⁹

This case is problematic because there was no evidence that any Chinese speakers in the United States knew of the site, let alone accessed it, and so the risk of confusion with the U.S. mark seemed minute. In addition, the case did not reveal bad faith use on the part of the defendant: he conducted an almost exclusively local business within China, in the Chinese language, and directed his business at many people who, likely, were not aware of the U.S. company's mark.⁴⁰

In such a case, there is a good argument for applying the *Bulova* principles to shield the foreign defendant from U.S. law, in the same way that U.S. jurisdictional principles have been applied to protect foreign interests in international trademark litigation.⁴¹ Such an application would accord with the views of European scholars who have advocated a "co-existence" approach to cross-border Internet trademark disputes.⁴² Under such a doctrine, only where the foreign user is making an "unfair use" of the mark, such as by cybersquatting, blatant imitation, or intentional confusion, would the use be prohibited.⁴³

39. *Id.*

40. Note that on appeal the U.S. Court of Appeals for the Fourth Circuit expressly vacated the District Court's finding that the defendant had engaged in bad faith. *Cable News Network L.P. v. CNNNews.com*, 56 Fed. Appx. 599, 603 (4th Cir. 2003) (unpublished).

41. *See supra*, Part I.A.

42. *See, e.g.*, Torsten Bettinger & Dorothee Thum, *Territorial Trademark Rights in the Global Village--International Jurisdiction, Choice of Law and Substantive Law for Trademark Disputes on the Internet (Part One)* 31 IIC 162 (2000) and *(Part Two)* 31 IIC 285 (2000).

43. *Id.* at 300-02. *See also* WIPO, Joint Recommendation Concerning Provisions on the Protection of Marks and Other Industrial Property Rights in

Such a view recognizes the legitimate competing interests of mark-holders and denies the right of a state to unilaterally impose its law outside of the bad faith context. The United States, however, has not chosen to follow the co-existence approach. Rather, it responded to the cyber-piracy problem by enacting ACPA. The effect of this legislation on cross-border Internet trademark litigation is considered in the next section.

III. THE ANTICYBERSQUATTING CONSUMER PROTECTION ACT (ACPA)

ACPA is a globally unique piece of legislation in at least two respects. First, the Act creates a new statutory tort of cyber-piracy whereby a trademark owner may bring an action against a person who has registered a domain name with the bad faith intent to profit from the mark.⁴⁴ Second, ACPA creates a new basis of *in rem* jurisdiction for trademark owners.⁴⁵ As an alternative to bringing a personal action against a defendant, the plaintiff may proceed *in rem* against the offending domain name in the judicial district in which the domain name registrar or domain name registry is located. This *in rem* jurisdiction is available for cyber-piracy, trademark infringement, and dilution claims.

The *in rem* jurisdiction provision is especially significant because Verisign, the exclusive worldwide registry for all domain names in the (.com), (.org) and (.net) top-level domains, is located in Virginia. Hence, even though registrars exist in other states and have the authority to allocate these top-level domains, Verisign retains the ability to transfer ownership or cancel a name. Consequently, a holder of a U.S. trademark will be able to use *in rem* jurisdiction to sue a top-level domain in Vir-

Signs, on the Internet, Arts. 2 & 3, available at http://www.wipo.int/about-ip/en/development_iplaw/pub845.htm (last visited Apr. 10, 2005) (allowing a defendant to make a "restrained use" of a mark, which means any use other than one intended to have a "commercial effect" in a country); Annette Kur, *Use of Trademarks on the Internet: the WIPO Recommendations* 33 IIC 41, 43-46 (2002).

44. 15 U.S.C. § 1125(d)(1)(A) (1999).

45. § 1125(d)(2)(A).

ginia regardless of the location of the registrar from which the name was allocated.⁴⁶

Two preliminary comments should be made about the legislation. First cyber-piracy, as was mentioned above, is one of the least defensible forms of trademark infringement. Consequently, a strong case exists for broad application of U.S. law to foreign infringers to deter and punish such conduct. Second, the drafters of ACPA appear to have been concerned not only with the difficulty of establishing personal jurisdiction, but also, the serious problem of enforcement of U.S. court orders. Enforcement is difficult because the relief typically sought in trademark infringement cases is an injunction requiring a defendant to cease the infringing activity, and such relief is rarely capable of recognition and enforcement as a foreign judgment.⁴⁷

It is arguable that the effect of ACPA *in rem* jurisdiction in cyber-piracy cases involving the top-level domain names is to establish the U.S. District Court for the Eastern District of Virginia as the exclusive global forum for such disputes and the Lanham Act as the exclusive applicable law. While some commentators have rejected this outcome as undesirable in all cases of trademark infringement,⁴⁸ the present author sees justification for a wide application of U.S. law in the context of abusive uses and registrations. Given the problem of enforcement mentioned above, the ACPA approach, which completely dispenses with any need to consider foreign interests or elements in the litigation before applying U.S. law, is clearly valid in cases where egregious or bad faith infringement has occurred. Moreover, it is important to note that the *in rem* provisions of the statute do not apply in all Internet trademark cases, for example where the defendant has a domain registered in the coun-

46. § 1125(d)(2)(A)(ii)(I)–(II) (The right to proceed *in rem*, however, also depends upon the mark owner showing (a) that personal jurisdiction would not be available over a person who would have been a defendant in the civil action; or (b) through due diligence that it has not been able to find a person who would have been a defendant.).

47. See, e.g., UNIF. FOREIGN MONEY-JUDGMENTS RECOGNITION ACT § 3 (1962) (in force in thirty states).

48. See Xuan-Thao Nguyen, *The Digital Trademark Right: A Troubling New Extraterritorial Reach of United States Law*, 81 N.C. L. REV. 483, 487 (2003); Steven J. Coran, Note, *The Anticybersquatting Protection Act's In Rem Provision: Making American Trademark Law the Law of the Internet?*, 30 HOFSTRA L. REV. 169, 170 (2001).

try-level domain of another nation. In such a case, the U.S. trademark owner who wishes to bring an action in the United States against a foreign defendant for trademark infringement, must satisfy both the rules of personal jurisdiction and the territorial scope of the Lanham Act, which means that there is scope for recognition of foreign interests in such cases.

On the other hand, the use of ACPA against an innocent foreign defendant, who uses a mark in good faith and is protected under its local law, is oppressive and does not adequately weigh the interests of the local plaintiff and foreign defendant. It may be said in response that the territorial restrictions of the Lanham Act must still be satisfied in cases other than cyber-piracy. For example, where the defendant used the mark in U.S. commerce, recent cases show how slim the contact with the United States can be for U.S. law to apply.⁴⁹ In situations of genuine good faith use, the application of ACPA may lead to injustice.

A. ACPA Applied to Cyber-Piracy Cases

In cyber-piracy cases, the exercise of *in rem* jurisdiction under ACPA has been effective in ceasing the use of domain names registered by foreign-based defendants, particularly where such persons had little or no connection to the United States.⁵⁰ The threshold requirement for *in rem* jurisdiction, that a plaintiff show that jurisdiction does *not* exist over the person of the registrant, also seems easy to satisfy. For example, in *BroadBridge Media, L.L.C. v. Hypercd.com*, the court barely referred to personal jurisdiction at all, simply noting that the plaintiff was unable to serve the domain name registrant because he was a foreign resident.⁵¹

Despite the legitimacy of applying the *in rem* provisions of ACPA to cyber-piracy cases, there are signs that some foreign courts and domain name registrars are resenting its applica-

49. *Cable News Network L.P.*, 177 F. Supp. 2d at 517–18. See also *Euro-market Designs, Inc. v. Crate & Barrel Ltd.*, 96 F. Supp. 2d 824, 833 (N.D. Ill. 2000).

50. See, e.g., *Heathmount A.E. Corp. v. Technodome.com*, 106 F. Supp. 2d 860, 868–69 (E.D. Va. 2000); *BroadBridge Media, L.L.C. v. Hypercd.com*, 106 F. Supp. 2d 505, 509 (S.D.N.Y. 2000).

51. *BroadBridge Media, L.L.C.*, 106 F. Supp. 2d at 509.

tion, particularly where the defendant is a local party with little or no connection to the United States. While this reaction suggests something of a foreign backlash against perceived unilateral application of U.S. law, it may also be said that foreign authorities could be doing more to ensure that their local residents do not engage in deliberate conduct that harms U.S. trademark owners.

In *GlobalSantaFe Corp. v. GlobalSantaFe.com*,⁵² a U.S. mark owner obtained an order in an ACPA *in rem* suit directing a Korean registrar to transfer a domain name belonging to a Korean registrant to the U.S. owner on the ground that the name violated its U.S. trademark rights.⁵³ The Korean registrant then obtained an order from the Korean court restraining the registrar from transferring the name on the basis that the U.S. court lacked jurisdiction to make such an order. The U.S. court responded by ordering Verisign to cancel the domain name. The court noted that although the Korean registrant had no contacts with the United States, the Korean registrar was in breach of its contract with Verisign by refusing to transfer the name. In addition, the court noted that ACPA *in rem* jurisdiction had an important policy justification: catching foreign-registered domain names in the top-level domain that infringe upon U.S. trademarks. Were ACPA *in rem* jurisdiction not to exist, such conduct could not be prevented.⁵⁴ In fact, the court felt that ACPA did not go far enough because foreign registrants could circumvent its provisions by registering domain names with local registrars within their respective country-level domains.⁵⁵ The court appeared to lament the fact that such names are currently out of reach of the U.S. courts.⁵⁶

GlobalSantaFe is a good example of why ACPA is needed: had it not existed, the U.S. trademark owner would have struggled to obtain personal jurisdiction over a party who was blatantly infringing upon its rights. In addition, it seems clear from the facts that even if a U.S. court had found jurisdiction to exist and issued an order requiring the defendant to cease use,

52. See generally *GlobalSantaFe Corp. v. GlobalSantaFe.com*, 250 F. Supp. 2d 610 (E.D. Va. 2003).

53. *Id.* at 612.

54. *Id.* at 623.

55. *Id.* at 624.

56. *Id.* at 625.

it is very likely that the Korean court would not have enforced the order. Tension between courts and administrative authorities in different countries should be avoided, occasionally, however, it will have to be endured to protect a trademark owner's rights. While such action may also lead to other states enacting their own version of ACPA,⁵⁷ if the scope of such legislation is limited to bad faith and abusive uses of marks, there is likely to be little damage to the international trademark system.

A similar comment may be made about the case *America Online, Inc. v. AOL.org*.⁵⁸ In that decision, the court ordered the Public Interest Registry in Virginia to transfer a domain name to a U.S. corporation, where a foreign registrar had refused to do so in violation of an earlier U.S. court order.⁵⁹ In fact, the Chinese registrar transferred the domain name to another registrar in South Korea in an attempt to avoid enforcement of the judgment upon one of its offices in California.⁶⁰

Although the decision in *America Online* is an appropriate application of ACPA to that claim, the court also made some general comments on the operation of ACPA that are problematic, at least when applied outside the cybersquatting context. The court noted that foreign registrants, by choosing a top-level domain to register a domain name, had

chose[n], in effect to play Internet ball in American cyberspace. Had they wished to avoid an American ACPA suit and transfer order and American jurisdiction altogether, they might have chosen to register the infringing domain name in top-level domains with solely foreign registries and registrars ... [R]egistrants choosing the ".org" top-level domain must know, or reasonably should have known, that the controlling registry for that domain is a U.S. entity located in Virginia and that, under the ACPA, a federal court in Virginia would ultimately have jurisdiction over any name registered in the ".org" top-level domain.⁶¹

57. Zohar Efroni, *A Barcelona.com Analysis: Toward a Better Model for Adjudication of International Domain Name Disputes*, 14 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 29, 90 (2003).

58. See generally *America Online, Inc. v. AOL.org*, 259 F. Supp. 2d 449 (E.D. Va. 2003).

59. *Id.* at 449.

60. *Id.* at 452-53.

61. *Id.* at 457.

The court appears to be saying that registration of a domain name in the top-level amounts to de facto submission to U.S. jurisdiction and law. The correctness of this view is questionable given that the only dispute resolution process a registrant clearly submits to at the time of registration is the Uniform Dispute Resolution Policy (UDRP), which is included as a term in the registration agreement for the generic top-level domains.⁶² It is likely that most registrants would simply be unaware of the application of ACPA, particularly those who registered names prior to its enactment in 1999. It seems a stretch to say that such persons have submitted to U.S. law and jurisdiction—rather, it appears that U.S. law has been imposed on them.

B. ACPA Applied to Good Faith Infringements

Where an action is brought under ACPA against a defendant who is making a good faith use of a mark, application of its provisions is particularly problematic, as is shown by *CNNNews.com*, discussed above.⁶³ In *CNNNews.com*, there was no finding that the defendant sought to do business in the United States, or that it used the mark in bad faith, yet it was held subject to *in rem* jurisdiction and stripped of its domain name.⁶⁴

It could be said that ACPA would not stop the defendant from registering a domain name in the Chinese country-level domain. Such an outcome, however, is at odds with the philosophy of the domain name system, which is to encourage global

62. See, for example, the clause provided by the registrar 2Tone Domain Registration Service, Customer Registration Agreement, at <http://www.2tonedomains.com/site/docs/agreement.php> (Mar. 14, 2005):

6. DOMAIN NAME DISPUTE POLICY. If you reserved or registered a domain name through us, or transferred a domain name to us from another registrar, you agree to be bound the Dispute Policy which is incorporated herein and made a part of this Agreement by reference. The current version of the Dispute Policy may be found at our web site: <http://www.icann.org/udrp/urdp.htm>. Please take the time to familiarize yourself with such policy.

Id.

63. See generally *Cable News Network L.P. v. CNNNews.com*, 177 F. Supp. 2d 506 (E.D. Va. 2001), *aff'd in part*, 56 Fed. Appx. 599 (4th Cir. 2003) (ACPA applied despite slim contacts with the United States).

64. *Id.*

use of the generic top-level domains, so that parties can use the Internet to reach new markets with their goods and services.⁶⁵ If the generic top-level domains were reserved exclusively for U.S. trademark owners, then limiting the defendant to a Chinese registry may have been appropriate.⁶⁶ The U.S. court, however, saw the case as entirely one of protecting the interests of the local trademark owner even though in this case the degree of harm to the party was very slight. Perhaps the court felt a sense of deference to the plaintiff given the international profile and goodwill of its brand. Nevertheless, the decision is a regrettable application of ACPA.

Two other ACPA *in rem* cases that did not involve cyberpiracy on the part of the defendant may be similarly criticized. In *Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona*,⁶⁷ the registrant of a domain name, who was a Spanish citizen but operated a U.S. shelf company (hosted on a Spanish server), sought a declaration under ACPA that its use of the name did not infringe any trademark rights of the Spanish defendant, the Barcelona City Council. The provision relied upon was the so-called “reverse domain name hijacking” provision of ACPA, which allows a domain name owner to sue to recover its domain name when a trademark owner has exceeded its author-

65. Note that ICANN has described un-sponsored, generic top-level domains (which includes the .com domain) as operating “under policies established by the global Internet community directly through the ICANN process....” *Top-Level Domains (gTLDs)*, at <http://www.icann.org/tlds> (last visited Mar. 17, 2005). This statement supports the view that the .com domain was intended for global, not merely American, use. In addition, the Generic Top level Domain Memorandum of Understanding (February 28, 1997) refers to the generic TLDs as “global name resources” which require administration by a “global distribution of registrars.” *Establishment of a Memorandum of Understanding on the Generic Top Level Domain Name Space of the Internet Domain Name System (gTLD-MoU)*, at <http://www.gtld-mou.org> (last visited Mar. 17, 2005).

66. For example, in Australia, the domain name registrar for the (.com.au) domain will only allocate a domain to an entity that has a commercial connection with Australia and some trademark or business association with the name. In effect, a registrant under the Australian system must be linked to the country and have a genuine intent to do business under that name. *Domain Name Eligibility and Allocation Rules for the Open 2LDs (2002-07)*, at <http://www.auda.org.au/policies/auda-2002-07> (last visited Mar. 17, 2005).

67. See generally *Barcelona.com, Inc. v. Excelentísimo Ayuntamiento de Barcelona*, 189 F. Supp. 2d 367 (E.D. Va. 2002), *rev'd*, 330 F.3d 617 (4th Cir. 2003).

ity by having the name suspended or transferred in arbitration proceedings, for example, under the UDRP.⁶⁸ Here, the Spanish mark owner had previously been successful via UDRP proceedings in having the name transferred to it.⁶⁹

The U.S. District Court in *Barcelona.com* refused the registrant's claim for a declaration, holding that the domain name infringed upon the City Council's rights under Spanish trademark law.⁷⁰ However, the Fourth Circuit reversed this decision, holding that foreign trademark law was irrelevant to a registrant's suit to recover a domain name under ACPA.⁷¹ According to the court, U.S. trademark law had exclusive operation in such a case, and since the word "Barcelona" was not protected under U.S. law, the registrant was entitled to keep the domain name.

The first interesting point about the case is that it was the domain name registrant who brought the action to overcome an unfavorable UDRP decision that labeled it a cybersquatter. Consequently, the case would seem to encourage cybersquatters (whether U.S. or foreign) to use ACPA against legitimate foreign mark owners. This outcome is rather ironic given that the original purpose of ACPA was to deter cyber-piracy.

Second, the dispute at issue had almost no connection with the United States: it involved two Spanish entities, concerned a Spanish city, and was hosted on a Spanish server. While the UDRP found for the City Council on the basis of Spanish law, the Fourth Circuit ignored this finding on the basis that only U.S. law was relevant. Surely this was a case where, under U.S. choice of law principles, a court would have considered that it had no interest in applying U.S. law given the lack of any meaningful U.S. connections.⁷² This case suggests that a review of ACPA is required to prevent U.S. law from being unilaterally and exorbitantly applied.⁷³

68. See Remedies; Infringement; Innocent Infringement by Printers and Publishers, 15 U.S.C. § 1114(2)(D)(v) (1999); UDRP, *supra* note 8 and accompanying text.

69. *Barcelona.com, Inc.*, 189 F. Supp. 2d at 370–71.

70. *Id.* at 372, 376.

71. *Barcelona.com, Inc.*, 330 F.3d at 628.

72. See *supra*, Part II.A.

73. See, e.g., Efroni, *supra* note 57, at 85–91, 117.

The most recent ACPA decision against a foreign defendant, *Hawes v. Network Solutions, Inc.*, also involved an action by a U.S. domain name registrant against a foreign trademark owner in circumstances where the registrant appeared to have engaged in cybersquatting.⁷⁴ The difference between this case and *Barcelona.com*, however, is that the foreign trademark owner had obtained a judgment for infringement from a foreign court. *Hawes* concerned a U.S. plaintiff who registered the domain name "lorealcomplaints.com" with Network Solutions, Inc. (NSI) in 1999.⁷⁵ L'Oreal, a French corporation, sued Hawes for trademark infringement in France, and, after NSI produced the registration certificate to the French court, the court ordered the transfer of the domain name to L'Oreal.⁷⁶ Hawes then sued L'Oreal in Virginia under the reverse domain name hijacking provision of ACPA, arguing that his use of the domain name was not unlawful, and requesting that it be transferred back to him.

The Fourth Circuit allowed the plaintiff's claim but stated that it did not want to "imply any disrespect of [the] French court."⁷⁷ In its view, jurisdiction under ACPA was not qualified or limited by the fact of pending actions in a foreign court in the same way that UDRP proceedings would not preclude an ACPA suit.⁷⁸ Three comments may be made about this decision. First, this case continues the trend, seen in *CNNNews.com* and *Barcelona.com*, of allowing ACPA to be used by persons with no good faith interest in the mark to attack the rights of foreign trademark owners. This trend is unfortunate and injurious to comity. Second, the court's comment that the French proceeding was merely "pending" is not strictly accurate; in fact the matter had already been resolved.⁷⁹ Arguably, at the time the U.S. proceedings were filed, the interference with the French court's process was even greater. It was not as if both parties had filed conflicting actions in different countries at the same time or, as in *GlobalSantaFe*, one party had filed retaliatory proceedings in

74. See generally *Hawes v. Network Solutions, Inc.*, 337 F.3d 377 (4th Cir. 2003).

75. *Id.* at 379.

76. *Id.*

77. *Id.* at 386.

78. *Id.*

79. *Id.* at 379.

a foreign country after an ACPA action had been brought against it.

The French court, seized first, had determined that a breach of its trademark law had occurred and such judgment was entitled to deference in the United States on the ground of comity, as occurs with most foreign judgments in U.S. courts.⁸⁰ Instead, the effect of allowing the ACPA action to proceed was to render the foreign trademark rights practically useless, as the registrant was reinstated as owner of the domain name because his registration did not infringe U.S. law.

Third, the Court drew a questionable analogy between foreign court proceedings and UDRP actions. It stated that neither proceeding was entitled to deference by a U.S. court when applying ACPA.⁸¹ The alleged similarity between these two types of proceedings is misplaced, given that, in the case of UDRP decisions, the UDRP Policy expressly provides that court proceedings may be brought to override a decision of a UDRP panel.⁸² By contrast, there is no international agreement or policy that elevates the decisions of one national court above another in trademark litigation. Indeed, foreign courts issuing judgments with respect to their own locally-granted trademarks should be entitled to greater deference because they are pronouncing on matters that cannot be adjudicated by a U.S. court. Indeed, as mentioned above, U.S. courts have historically and routinely enforced foreign judgments on the basis of comity.⁸³ This result is the strongest example to date of the trend of unilateral application of national law in the United States; this is the first case where foreign trademark rights have been expressly overridden by application of ACPA.

C. Is ACPA Going in the Right Direction?

An effective revolution in thinking has occurred since *Bulova* with respect to international trademark disputes. While *Bu-*

80. U.S. law has a long tradition of respect and comity towards judgments of foreign countries. *See* *Hilton v. Guyot*, 159 U.S. 113, 164 (1895). *See also* UNIF. FOREIGN MONEY-JUDGMENTS ACT, *supra* note 47; RESTATEMENT (SECOND), *supra* note 26, § 98.

81. *Hawes*, 337 F.3d at 386.

82. UDRP, *supra* note 8, ¶ 3(b).

83. *See supra* note 80.

lova and its progeny encouraged extreme deference to foreign defendants in the application of U.S. trademark law, recent practice has altered this position. It is clear that the Internet has exposed the inadequacy of the *Bulova* criteria through the penetration of the U.S. market by foreign marks and the emergence of practices such as cybersquatting. Such new developments clearly demand a greater willingness to reach persons outside the United States with U.S. law than was previously the case. Consequently, since ACPA came into force, courts have applied U.S. trademark law more liberally to foreign defendants, a legitimate approach given the high prevalence of cybersquatting in the generic top-level domains and the difficulty of enforcing court ordered injunctive relief in other countries. Where, however, the defendant has few contacts with the United States and is carrying on business in good faith under the mark, with a strong local orientation and backed by the protection of a local trademark, application of U.S. law through ACPA is harder to justify.

This trend is noticeable in the *CNNews.com* case, as well as in more recent decisions, such as *Barcelona.com* and *Hawes*, where domain name owners who appear to have registered names in suspicious circumstances have been allowed to keep such names despite their breach of UDRP Policy or foreign trademark rights.⁸⁴ It would be ironic indeed if ACPA were to lead U.S. courts to gain a reputation for facilitating cybersquatting against foreign trademark owners, yet this seems a clear possibility under the current law, and a matter that requires serious legislative attention in the United States.

Nevertheless, the view that ACPA should be repealed in favor of increased deference to UDRP arbitration must be rejected. First, while it is true that the UDRP does provide relief against cyber-piracy, its decisions and procedures have been criticized.⁸⁵

84. In *Barcelona.com, Inc.*, a domain name owner was found by a UDRP panel to have registered the name in bad faith. *Barcelona.com, Inc.*, 189 F. Supp. 2d at 373. In *Hawes*, a French Court found a domain name owner's registration to infringe a French trademark. *Hawes*, 337 F.3d at 379.

85. See, e.g., Elizabeth G. Thornburg, *Fast, Cheap, and Out of Control: Lessons from the ICANN Dispute Resolution Process*, 6 J. SMALL & EMERGING BUS. L. 191 (2002); Robert A. Badgley, *Improving ICANN in Ten Easy Steps: Ten Suggestions for ICANN to Improve its Anticybersquatting Arbitration System*, 2001 U. ILL. J.L. TECH. & POL'Y 109, 113–14 (2001).

Second, it may be argued that a U.S. trademark owner should be entitled to invoke U.S. jurisdiction to gain redress under its own law, particularly where deliberate and bad faith harm is being caused. Furthermore, for a scheme of greater UDRP deference to work internationally, all states would have to sign a treaty agreeing to limit grounds of domestic judicial review. In the absence of such a treaty, national courts would retain the power to overturn a UDRP decision at the expense, for example, of a U.S. trademark owner's rights.

As a final point, the recent decision in *Microsoft Corp. v. Lindows.com, Inc.*⁸⁶ suggests that technology may now be available to assist U.S. courts in curtailing the application of U.S. law in Internet trademark cases. In *Lindows.com*, the availability of inexpensive commercial software to block users according to geographical location was noted.⁸⁷ If such software is precise and effective there seems to be no reason why U.S. courts cannot issue orders under ACPA with limited territorial effect. That is, instead of forcing the registrant to transfer or cancel a domain name, it could be entitled to use such a name in all countries where it has rights of use and only precluded from using the mark in the United States. Such an approach would arguably balance the competing interests in cases of parallel good faith use of marks in separate territories more effectively than the current position under ACPA.

IV. TURNING THE TABLES: U.S. RECOGNITION OF FOREIGN TRADEMARK RIGHTS

Another possible reason for the expansive application of U.S. law in Internet trademark cases is that, traditionally, U.S. courts have not enforced foreign trademark rights. In particular, they have not allowed a party to sue in the United States for infringement or to question the validity of a foreign-registered mark. The main reason for this position was the "act of state" doctrine, which maintains that a U.S. court does not review the acts of foreign government officials acting within their own territory because of the consequent danger of conflict

86. *Microsoft Corp. v. Lindows.com, Inc.*, 319 F. Supp. 2d 1219, 1223 (W.D. Wash. 2004).

87. *Id.*

between the court and the administrative and judicial officers of the foreign state.⁸⁸

Most courts examining infringement of foreign registered trademarks have refused to entertain the claims.⁸⁹ The decision in *Lindows.com*, however, suggests a possible willingness to reconsider this position. In that matter, Microsoft had obtained an injunction in a Dutch court which restrained Lindows.com from selling and distributing its software in the Netherlands and ordered it to render its site inaccessible to users in Belgium, the Netherlands and Luxembourg.⁹⁰ Microsoft then filed a second suit in the Netherlands alleging that Lindows.com had failed to comply with the original order.⁹¹ Lindows.com approached the U.S. courts, seeking to enjoin Microsoft from pursuing the foreign litigation and seeking a declaration that the Dutch order was unenforceable in the United States.⁹²

The court refused to grant both forms of relief because to do so would amount to “[interference] with the judicial proceedings of other sovereign nations.”⁹³ The court noted that the Paris Convention,⁹⁴ to which the United States is a party, is premised upon national trademark law having territorial, rather than extraterritorial, operation. If the U.S. court granted the relief sought, it would completely nullify the foreign trademark rights and, in effect, superimpose U.S. law upon a foreign country. Such a conclusion would not only be injurious to comity but also to the holder of the foreign trademark rights, in this case Microsoft.

88. See, e.g., *Banco Nacional de Cuba v. Sabbatino*, 376 U.S. 398, 401 (1964); *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633, 645 (2d Cir. 1956).

89. See, e.g., *Alcar Group, Inc. v. Corporate Performance Sys., Ltd.*, 109 F. Supp. 2d 948, 952 (N.D. Ill. 2000). Cf. *V & S Vin & Sprit Aktiebolag v. Hanson*, 146 F. Supp. 2d 796, 802 (E.D. Va. 2001) (suggesting that it would have jurisdiction to hear a claim in relation to a foreign trademark where a plaintiff sought a worldwide injunction).

90. *Lindows.com*, 319 F. Supp. 2d at 1221.

91. *Id.*

92. *Id.*

93. *Id.* at 1223.

94. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, revised at Stockholm, July 14, 1967, 21 U.S.T. 1583, 828 U.N.T.S. 305.

Lindows.com is a good example of respect for foreign trademark rights in the Internet context and should encourage U.S. courts to rethink their traditional resistance to adjudicating claims based on foreign-registered trademarks. The current U.S. position is harder to justify as multi-territorial infringements of IP rights become increasingly common. For example, a single Web site can infringe upon the trademark laws of many states; it would be sensible for a plaintiff to be able to consolidate all of his claims in a single forum with significant savings in time and costs.⁹⁵

The current approach, perhaps unwittingly, encourages unilateral application of U.S. trademark law. Since a plaintiff cannot secure recovery for infringements of its foreign marks based on conduct outside the United States, a U.S. court may be more easily persuaded by an injured rights-holder to “fill the gap” by applying U.S. law to such conduct. Where the plaintiff is a U.S. resident who would be forced to sue abroad to vindicate its foreign rights, this risk seems particularly great. The record of U.S. courts in applying the Lanham Act to foreign defendants, particularly in Internet transactions, lends some support to this assertion. By contrast, if U.S. courts were to adopt a more receptive approach to foreign trademark claims, in line with the view of the court in the *Lindows.com* case, the incentive for unilateralist and extraterritorial application of national law may diminish. As has been noted,⁹⁶ wide and expansive application of national trademark law is likely to be more injurious to relations with foreign states than adjudicating upon foreign trademark rights.⁹⁷

95. ALI PRINCIPLES, Draft No. 2, *supra* note 7, at 19, 61–64.

96. Dinwoodie, *supra* note 29, at 24.

97. It is also worth noting that while the act of state doctrine has been routinely invoked in U.S. courts to justify refusal to adjudicate foreign trademark actions, the application of this principle here seems somewhat misplaced. Traditionally, this doctrine has been employed to prevent a court reviewing uniquely governmental and sovereign acts of a foreign state, for example the conduct of its national security or foreign policy. Clearly, in this context, a state may understandably resent the intrusion and scrutiny of a foreign court, but the determination as to whether a private party is entitled to sue to protect registered trademark rights would seem much lower down the scale of sensitivity.

V. CONCLUSION

The “collision” between the national law of trademarks and the borderless Internet domain name system has led to many complex disputes before national courts. In an entirely domestic dispute—between two parties with places of business in the same country, concerning local trademark rights—questions of personal jurisdiction, applicable law and enforcement of judgments do not arise. The introduction of the cross-border element, however, creates problems for domestic courts. Not only should the interest of the foreign party be taken into account but also the interest of foreign states, when the forum court’s holding may encroach upon their jurisdictional and legislative competence.

In some decisions, great respect has been paid to the foreign interests implicated in the litigation, but in other cases courts have assumed jurisdiction or applied local law in almost mechanistic fashion with little regard for the foreign dimension. This unilateralist tendency is justified in the case of abusive and bad faith conduct by foreign users of marks, but is much less acceptable where the user is simply pursuing a genuine, parallel business under the mark in another country. This latter situation, which appears to be the most common type of cross-border Internet trademark dispute, calls for restraint and sensitivity in assumption of jurisdiction and application of local law. Recent technological developments may be available to help courts in this respect by encouraging them to give a limited territorial effect to any orders they impose. Such an approach, based on respect for foreign interests and rights, would seem both necessary and desirable, at least until a truly global trademark regime emerges.

APPLICABLE LAW: AN ALTERNATIVE PROPOSAL FOR INTERNATIONAL REGULATION—THE MAX-PLANCK PROJECT ON INTERNATIONAL JURISDICTION AND CHOICE OF LAW

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I. INTRODUCTION AND BASIC POLICIES

It has been said that, when confronted with new technological developments, we tend to overestimate their short-term effects, whereas the long-term effects are rather underestimated.¹ It seems to me that this is an excellent motto also for the topic considered here, i.e., how the increase in the number of IP conflicts having transborder or even global implications influences the traditional rules of private international law. While it might seem at first glance that internet-spurred developments compel a total devaluation of traditional choice of law rules founded on the territoriality principle, it might amount to an overreaction if the system as a whole is set aside. While it appears trite to say that changes must be accepted in order to accommodate new developments, what is genuinely at issue is how far these changes should go and to what extent they will affect the very policies on which the present system is founded.

As will be set out in more detail below, the proposals submitted here for further discussion adopt a rather cautious approach in that respect. Their basic philosophy is that the old rules on territoriality and—as the choice of law principle echoing that rule—*lex protectionis*² should be observed as faithfully as possible even in the age of cyberspace. Exemptions are accepted for two reasons only: first, if and to the extent that this is based on an agreement between the parties, provided that such an agreement is acceptable under general policy considerations (party autonomy exemption); and, second, if and to the extent that abiding by a strict application of the territoriality/*lex protectionis* principle is impossible in the sense that it would amount, for all practical matters, to denial of justice (legal efficiency exemption).

1. See, e.g., JÜRGEN BECKER & THOMAS DRIER, URHEBERRECHT UND DIGITALE TECHNOLOGIE [COPYRIGHT AND DIGITAL TECHNOLOGIES] 123 (1994).

2. There is, of course, a difference between a strictly territorial approach towards intellectual property protection and the *lex protectionis* principle. For instance, the latter could be satisfied by a system applying the law of a given country with regard to persons who are subject to the sovereign power of that state, irrespective of the territory on which they are located.

This approach is founded on a number of policy reasons. Most important among them is the notion that the territoriality and *lex protectionis* principles are best suited to safeguard national legislatures' freedom to regulate intellectual property matters having an impact on their territories (to the extent that this complies with international obligations, and absent full harmonisation of substantive IP law). Moreover, as was said before, current discussions tend to overemphasize the impact of internet-related conflicts, and to ignore the risk that the application, in a broad and general manner, of rules developed with a specific view to conflicts in cyberspace may have detrimental effects outside that area.

As background to these considerations, the following scenarios are distinguished. The first of these concerns cross-border conflicts of a traditional type, i.e., the typical case of infringing goods being manufactured in one country and being sold, or otherwise distributed, in one or several other countries. Although not the focus of general attention, this scenario still constitutes the most common setting by far for presently occurring transborder or multi-state infringements, particularly in regard to industrial property. Even in the copyright context, cross-border conflicts of the traditional kind still play a certain role when books or other tangible objects incorporating protected works are copied abroad or when infringement is caused by terrestrial transmission of radio or television programs into a neighboring country.³

The second scenario concerns conflicts caused by content posted on the internet, resulting in communication which is, technically, not confined to a certain place. Nevertheless, IP conflicts eventually resulting therefrom are not necessarily global or ubiquitous in the sense that they cannot be located in one or several particular territories. A typical example for such a situation is provided by the use of trademarks or other distinctive signs as domain names or in the text displayed on an internet website. Here, just like in the first scenario, the con-

3. See, e.g., *National Football League v. Prime Time 24 Joint Venture*, 211 F.3d 10 (2d Cir. 2000); for German law, see 35 INT'L REV. OF INTELL. PROP. AND COMP. L. 977 (2004) (discussing German Federal Supreme Court decision *Felsberg Transmitter*, decided Nov. 2002, in which defendant was broadcasting from Germany into France).

flict is typically confined to the country or countries where the same or similar sign exists. Nevertheless, the situation may give rise to different legal problems. Indeed, an appropriate solution in these cases can only be found if due account is taken of the international implications of the conflict, regarding both the finding of an infringement occurring in a particular territory and the impact sanctions eventually imposed may have on the sanctioned party's ability to carry out legitimate business in other countries.

In the third scenario, the conflict cannot be defined as occurring in specific territories only. The main example of this situation is furnished by internet communication, the content of which, at least as a matter of principle, is legally protected in (practically) all countries of the world. For structural reasons, this hypothesis is realistic mainly or even exclusively for copyright, where the right practically comes into universal existence with the act of creation, and can therefore be the object of, literally, worldwide misappropriation. In such a situation, it is clearly impossible to determine, let alone to verify and apply, all the national laws that may be of relevance when following a traditional approach. It is with a view to those situations that rules deviating from the traditional principle of *lex protectionis* are most clearly needed.

II. THE MAX-PLANCK PROPOSAL

A. *Aims and Current Status*

The proposals to be presented in the following are the not yet fully grown fruit of the work undertaken by a group first established in 2001 at the Max-Planck Institute for Intellectual Property, Competition and Tax Law, in Munich (MPI). The formation of that group was motivated by the growing importance of issues concerning international jurisdiction and choice of law in the age of globalization. The efforts gained further momentum when it became obvious that the ambitious plans of the Hague Conference for Private International Law to conclude a comprehensive Convention on jurisdiction and enforcement of foreign judgments in civil and commercial matters in the framework of the Hague Conference of Private International

Law (Draft Hague Jurisdiction Conference or DHJC) would not lead to an easy success.⁴ Paralleling the efforts initiated at about the same time by Rochelle Dreyfuss and Jane Ginsburg—which subsequently developed into the present ALI project—the MPI group aimed to provide more scientific input in this matter to help fill the gap that would be left by the Hague Conference abandoning or substantively limiting their original plans regarding intellectual property matters.

Against this backdrop, it appeared natural to start by elaborating a proposal for a special provision on international jurisdiction in IP proceedings that might, at a later stage, become part of a future, comprehensive Convention of the type originally envisaged by the Hague Conference. The proposal was finalized in summer 2003, when it was presented and discussed at a conference marking the end of the first phase of the MPI project.⁵

The work presently undertaken in the working group is impacted by the following factors. First, contrary to the optimistic note on which the project was started in 2001, it has now become clear that it is utterly unrealistic to assume that the Hague Conference project of an international Convention on jurisdiction and enforcement of judgments in private and commercial matters will ever (or at least in the foreseeable future) develop into maturity.⁶ For the MPI project, this means that it no longer makes any sense to phrase the proposed rules on international jurisdiction in IP matters in a way that they could be inserted, as a specific IP provision, into the legal framework

4. For a more explicit account of this background, see Annette Kur, *Jurisdiction and Enforcement of Foreign Judgments - The General Structure of the MPI Proposal*, in *INTELLECTUAL PROPERTY AND PRIVATE INTERNATIONAL LAW, HEADING FOR THE FUTURE* 21, 22 (Josef Drexl & Annette Kur eds., 2005) [hereinafter *HEADING FOR THE FUTURE*].

5. The text of the proposal, as well as the papers delivered at the conference, are published in *HEADING FOR THE FUTURE*, *supra* note 4, 307 app.

6. The best one can hope for is that it will be possible to conclude a Convention on jurisdiction clauses in B2B contracts (Draft Hague Contracts Convention or DHCC), as is presently proposed. For the latest report on the proposed Convention, see *HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW, PRELIMINARY DRAFT CONVENTION ON EXCLUSIVE CHOICE OF COURT AGREEMENTS* (Preliminary Draft No. 26, Dec. 2004), available at http://hcch.e-vision.nl/upload/wop/jdgm_pd26e.pdf (last visited Apr. 9, 2004) [hereinafter *HAGUE PRELIMINARY CONVENTION*].

of a comprehensive jurisdiction Convention. Instead, it will be necessary to re-edit them as a body of separate, stand-alone rules, most probably in the form of “principles” similar to those that are currently elaborated in the framework of the ALI project.

Second, again in accordance with the ALI project, it was decided that it hardly makes sense to concentrate on jurisdiction rules alone. Jurisdiction rules are closely, and often inseparably, linked with choice of law issues. Therefore, in the second phase of the MPI project, the group will also develop provisions dealing with applicable law. In order to broaden and strengthen the basis for this work, and in order to increase the impact the project will have not only among intellectual property lawyers, but also within the academic community dealing with private international law, the new phase of the project is conducted jointly with the Max-Planck Institute for Foreign and International Civil Law and Private International Law in Hamburg.⁷ In addition, the working group will be reinforced by academics from other European countries.⁸

Just like the ALI project in its present stage (although on a much smaller scale) the MPI project for the time being is a purely academic endeavour which has not yet been discussed outside academia, i.e., by interested circles in a wider sense or by political bodies. Of course, it is hoped that, in the long run, the project will not remain confined to the ivory tower but will, at some time, gain more practical relevance.

The account given below briefly describes the main features of the jurisdiction aspect of the project and will then focus on choice of law. However, as the work undertaken in the latter field has just started, the contribution will only address some basic issues without going into much detail.⁹ Furthermore, it

7. A joint conference with international participation was arranged in March 2004 in Hamburg, the outcome of which was documented in *INTELLECTUAL PROPERTY IN THE CONFLICT OF LAW* (Jürgen Basedow et al. eds., 2005) [hereinafter *IP CONFLICT OF LAW*].

8. At present, Paul Torremans, Jean-Christophe Galloux and Graeme Dinwoodie have agreed to participate in the working group.

9. Until now, the deliberations about applicable law have been concentrated on the general provisions concerning infringements. Further work will also deal with the law applicable to determine initial title, specific rules concerning contractual relationships, etc.

must be emphasized that the results are by no means finalized, but may be changed and refined as the work continues.

*B. Jurisdiction*¹⁰

The jurisdiction proposal by the Max-Planck group was mainly inspired by, and largely follows the structure of, the preliminary draft Jurisdiction Convention published in 1999 by the Hague Conference for Private International Law (DHJC). The DHJC, in turn, was based on the concept of the Brussels Convention on Jurisdiction and Enforcement in Civil and Commercial Matters. Against this backdrop, there is reason to say that the Max-Planck jurisdiction proposal, at least to some extent, reflects typical continental European patterns of thinking. Most prominent among these is the effort to precisely determine the competent forum under legal rules, without leaving courts too much discretion to decide whether they are the appropriate forum in which a given case should be litigated. Another major aim underlying the proposal, more universal in its nature, concerns the balance of powers between the parties; strategic advantages provided by the procedural rules should be distributed evenly between them.

Based on these objectives, the main features of the MPI jurisdiction proposal can be summarized as follows. Proceedings concerning the infringement of an intellectual property right can be conducted (a) at the place of defendant's domicile, (b) the place where the right is allegedly infringed, or (c) at the place chosen by the parties in a valid agreement. Courts in the defendant's forum are also competent, in principle, to adjudicate infringements occurring abroad, whereas a court whose competence is solely founded on the fact that the alleged infringement occurs in that country is competent only to exercise jurisdiction with regard to its own territory. Exemptions from the latter rule are only accepted, under certain conditions, for claims against multiple defendants, and in cases of infringement caused by internet-related behavior. In the latter case, the ex-

10. For a more comprehensive account of the Max-Planck jurisdiction proposal, see Kur, *supra* note 4, at 21; see also Annette Kur, *Principles Governing Jurisdiction, Choice of Law and Judgments in Transnational Disputes: A European Perspective*, 3 CRI 65 (2003) [hereinafter Kur, *European Perspective*].

emption only applies if an essential part of the infringement occurs in the forum state and if the activities of the defendant are not directed at the market in his or her home country, and do not have a substantial effect there.

Proceedings which determine the validity or registration of an intellectual property right with effect *erga omnes*¹¹ must be conducted before the courts in the country of registration (or protection). If, on the other hand, invalidity is raised as a defense in infringement proceedings or otherwise comes up as an incidental matter, this does not affect the competence of other courts. However, the decision then becomes only legally effective between the parties.

C. Choice of Law

1. Background and Existing Proposals

a. Europe: The Rome II Proposal

European legislature is currently struggling with plans to introduce two regulations dealing with issues of private international law. One will cover contractual obligations and is based on the Convention applicable to contractual obligations (the so-called Rome Convention). The other (Rome II)¹² is more interesting for present purposes as it concerns non-contractual obligations, i.e., torts and delicts, which, as a matter of principle, also apply to intellectual property infringements. However, the first preliminary draft, published in 2002, did not provide for any special rules on intellectual property. Instead, IP conflicts would have had to be treated under Article 3, the general provision applying to all unspecified kinds of torts. As a general rule, it was established in Article 3.1 of the preliminary draft that the governing law should be the law of the country where the “loss is sustained, irrespective of the country or countries in which the harmful event occurred.” This evoked severe criticism from the IP community, as it was held practically unani-

11. Meaning that the outcome will have absolute effect, i.e., the right will be declared valid or invalid vis-à-vis everyone.

12. See generally Proposal for a Regulation of the European Parliament and the Council on the Law Applicable to Non-Contractual Obligations (“ROME II”), COM (2003) 427 final [hereinafter Rome II].

mously that Article 3.1 was inappropriate for intellectual property conflicts. It was thus decided that a special rule on intellectual property matters should be inserted into the final proposal, which came out in 2003. The new proposal, based on a suggestion made by the MPI for Foreign and Private International Law in Hamburg, contains the following clause in Article 8: "1. The law applicable to a non-contractual obligation arising from an infringement of an intellectual property right shall be the law of the country for which protection is sought."¹³

The proposed formulation reflects the country of protection rule (*lex protectionis*). It has been argued in the literature that application of the *lex protectionis* principle, as the basic choice of law rule regarding intellectual property infringement,¹⁴ is mandated by the national treatment rule embedded in the international conventions on IP¹⁵ and is explicitly set out in Article 5.2, which is the second sentence of the Berne Convention.¹⁶ On the other hand, controversies have never ceased about the legal nature and exact meaning of those international rules. If the proposed article should become European law,¹⁷ it would have the beneficial effect of putting an end to such quarrels by clarifying beyond doubt that the country of protection principle is a genuine rule of private international law to be applied in

13. Paragraph Two concerns community rights and is of no relevance for our topic.

14. In contrast to infringement, the country of protection rule is not generally accepted, e.g., with regard to initial ownership of intellectual property rights.

15. See, e.g., Paris Convention for the Protection of Industrial Property of March 20, 1883, revised, Stockholm, July 14, 1967, 25 U.S.T. 1583 [hereinafter Paris Convention]; Berne Convention for the Protection of Literary and Artistic Works, Sept. 9, 1886, revised, Paris, July 24, 1971, 25 U.S.T. 1341 [hereinafter Berne Convention].

16. Berne Convention, *supra* note 15, Art. 5(2). The question might therefore be posed whether it is useful at all to include such a rule in a European legal instrument, given that its effects will hardly differ from what is generally held to apply anyhow. See, e.g., Josef Drexler, *The Proposed Rome II Regulation: European Choice of Law in the Field of Intellectual Property*, in *HEADING FOR THE FUTURE*, *supra* note 4, at 151–76.

17. At the time of writing this (December 2004), it is still unclear in which form, if at all, the Rome II proposal will become European law. Several proposals for re-writing individual provisions, among them Article 8, have been made in the process. However, none of these has been submitted to Parliamentary vote, nor has the Commission promulgated a new version of the text proposed in July 2003.

intellectual property conflicts. Furthermore, it would help to avoid misunderstandings ensuing from the somewhat ambiguous wording of the Berne Convention by clearly pointing to the country *for which* protection is sought, rather than using the term (as is employed in the Berne Convention) “country *where* protection is claimed.”¹⁸

With regard to the scope of the country of protection rule, proposed Article 8 is confined to *infringements*, i.e., it has no direct bearing upon matters like existence and validity, let alone initial ownership, of the right. It is also worth noting that neither Article 8 itself nor other parts of the proposed Regulation specifically addresses situations where the number of potential countries of protection becomes too numerous to be considered simultaneously, as might typically happen with infringements committed in cyberspace.

b. The Draft ALI Principles

The rules proposed in the ALI project “Intellectual Property: Principles on Jurisdiction and Choice of Law in Transborder Disputes” in their presently available form (as of February 2004) adopt a different point of departure.¹⁹ Whereas the European proposal establishes one and the same rule—*lex protectionis*—for all kinds of intellectual property rights, the draft ALI principles make a fundamental distinction between rights arising out of registration, and other intellectual property rights.²⁰ With regard to the former, the “law applicable to determine the existence, the validity and scope of those rights and remedies for their infringement is the law of each country of

18. Berne Convention, *supra* note 15, Art. 5(2). The phrase “country *where* protection is claimed” might relate (a) to the country where the court before which remedies are claimed is situated, and (b) to the country where the alleged infringement has taken place. Unfortunately, it appears that the wish was raised in Parliament to change the wording in proposed Article 8 so that it refers to the country “where the harmful event occurs.” Although this might not lead to substantive changes, it would still be regrettable as one of the main advantages of the rule would be lost.

19. See AMERICAN LAW INSTITUTE, INTELLECTUAL PROPERTY: PRINCIPLES GOVERNING JURISDICTION, CHOICE OF LAW, AND JUDGMENTS IN TRANSNATIONAL DISPUTES (Preliminary Draft No. 2, 2004) (on file with Brooklyn Journal of International Law) [hereinafter ALI PRINCIPLES].

20. See ALI PRINCIPLES, *supra* note 19, § 301.

registration,”²¹ whereas for other intellectual property rights, the law applicable to existence and scope, etc., would be the “law of any country where the allegedly infringing act has or will significantly impact the market for the work or subject matter at issue.”²² Furthermore, with regard to personal rights, the applicable law is the law of the country where the damage occurs.²³

In addition to the basic rule, the draft Principles provide for special rules to be applied in “exceptional cases,” e.g., when the case is more closely connected with the law of another country than the country of registration or market impact, where parties have a pre-existing relationship, when it is unduly burdensome for the court to decide on the basis of several other countries’ laws, or when those laws cannot be ascertained.²⁴ In those instances, the court shall apply the law of the country that has the closest connection with the dispute, as shall be determined with the help of several factors listed in the draft provision.²⁵

2. Evaluation and Own Proposal

a. Should Lex Protectionis Be Abandoned as the Basic Rule?

i. General Approach: Registered Rights

The above comparison between Rome II and the draft ALI principles raises the question of whether *lex protectionis*, the basic rule for choice of law regarding the infringement and existence of all intellectual property rights alike (as in Rome II), should be abandoned in favor of a split approach towards registered and unregistered rights (as in the draft ALI principles). Regarding *registered* rights, the impact of this question may appear minimal or negligible. Given the fact that rights arising out of registration *per definitionem* can only (validly) ensure protection in the country where registration has been effected, the result will regularly be the same. On the other hand, referring to the country of registration instead of the country of pro-

21. *Id.*

22. *Id.*

23. *Id.*

24. See ALI PRINCIPLES, *supra* note 19, § 302.

25. See *Id.* § 302(2).

tection would eliminate any possibility of arriving at a uniform concept that would apply to all types of intellectual property rights, as might be provided by employing the *lex protectionis* rule.²⁶

Moreover, and more importantly, the phrase “country for which protection is sought” has specific merits which are lost when reference is made instead to the country of registration. In a much clearer way than the latter, the former phrase highlights the fact that the court, guided by the plaintiff’s claims, must actually identify and specify the country or countries in regard to which the verdict shall become legally binding. This aspect is particularly important with regard to prohibitive injunctions that typically account for the large majority of remedies imposed in lawsuits concerning intellectual property conflicts.²⁷ In a world where decisions having extraterritorial effects become more and more frequent, but also potentially more contentious, courts as well as the parties involved should not be given too much leeway to claim and issue sweeping decisions in matters involving multiterritorial IP infringement without a clear statement indicating their intended territorial scope.

It is therefore proposed that instead of abandoning the phrase “country for which protection is sought,” or replacing it by the less illustrative reference to the country of registration, the phrase should, rather, be reinforced and taken seriously. Especially in regard to prohibitive injunctions, the plaintiff should be required to explicitly declare the countries in which it actually seeks protection. In addition, courts should explicitly name the countries in which the verdict is binding, meaning that the injunction shall become effective with respect to infringements which are (have been/are threatening to be) carried out in, and/or are directed to, that country.²⁸

26. Applying one and the same basic rule for all intellectual property rights alike is certainly not an asset in itself that must be preserved by all means. On the other hand, it is also not easily understood why the common approach should be relinquished without pertinent reasons.

27. See Roger D. Blair & Thomas F. Cotter, *An Economic Analysis of Damages Rules in Intellectual Property Law*, 39 WM. & MARY L. REV. 1585, 1589 (1998) (noting that “injunctive relief [is] the principal remedy available against those who infringe intellectual property rights.”).

28. It adds to the complexity of this issue that different rules may apply in different countries as to whether it is the duty of the parties (primarily of the plaintiff) to specify expressly the country or countries for which protection is

The process of defining the “country for which protection is sought” can pose intricate questions, particularly with regard to complex actions consisting of several elements taken out of, or being connected to, a number of different states. However, by insisting on an obligation to clarify this matter before resolving the question as to which law is to be applied in the proceedings, the parties as well as the courts will be forced to embark upon a thorough analysis of the issue’s territorial aspects. Such clarification should be regarded as a virtue rather than a drawback, as it helps to raise awareness of international implications inherent in a given conflict.

ii. Unregistered Rights

With regard to *unregistered* rights, the draft ALI principles refer to the law of the country or countries where the market is substantially impacted by the allegedly infringing act.²⁹ Submitting that this is meant to be more than, and different from, a mere explication of what *lex protectionis* means with regard to unregistered rights, the motives for abandoning the traditional rule must be questioned. The following reasons might account for this move. First, this could reflect the approach taken in Article 3, the general rule in the proposed Rome II Regulation, which makes reference to the law of the country where the effects of a tortious act are felt (the “European” argument).³⁰ Second, this might be an attempt to ensure that countries are left out of consideration when determining the law applicable to an infringement allegedly occurring abroad if the act did not have any, or only insignificant, market effect in the respective territory or territories (the “lacking market impact” argument). With regard to the first “European” argument, it is important to

sought, or whether that is an issue to be considered and decided by the court *sua sponte*. These matters remain to be regulated by national procedural law and traditions. See Daniel J. Gervais, *The Internationalization of Intellectual Property: New Challenges from the Very Old and the Very New*, 12 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 929, 942 (2002).

29. See ALI PRINCIPLES, *supra* note 19, § 301.

30. This explanation was given by François Dessemontet during the joint MPI/MPI conference in Hamburg, March 2004. See IP CONFLICT OF LAW, *supra* note 7. As was pointed out above, the general rule in Article 3 is no longer of direct relevance for intellectual property in the proposed Rome II Regulation as it stands now.

note that pointing towards the (future) situation in Europe no longer makes for a convincing case against maintaining *lex protectionis* with regard to intellectual property conflicts. As was mentioned above, the original concept of the proposed Rome II Regulation, which indeed had established Article 3.1 with its reference to the country where losses are sustained³¹ as the general rule encompassing *inter alia* intellectual property matters, was subsequently changed by the introduction of a special rule on intellectual property infringement,³² for the very reason that the general rule was considered inappropriate for that field.

The “lacking market impact” argument—that the law of certain countries should be left out of consideration if the harmful effects accruing there are insignificant—is certainly plausible. However, it is rather puzzling that a rule taking account of that aspect should only be inserted with regard to unregistered rights. The same problems could, and in practice frequently will, also arise with regard to registered rights, in particular with regard to trademarks. This aspect will be treated more thoroughly in the following section.

31. The formulation of Article 3 in the present Commission proposal has been changed vis-à-vis the preliminary draft. It is now as follows:

Article 3 - General rule

1. The law applicable to a non-contractual obligation shall be the law of the country in which the damage arises or is likely to arise, irrespective of the country in which the event giving rise to the damage occurred and irrespective of the country or countries in which the indirect consequences of that event arise.

2. However, where the person claimed to be liable and the person sustaining damage both have their habitual residence in the same country when the damage occurs, the non-contractual obligation shall be governed by the law of that country.

3. Notwithstanding paragraphs 1 and 2, where it is clear from all the circumstances of the case that the non-contractual obligation is manifestly more closely connected with another country, the law of that other country shall apply. A manifestly closer connection with another country may be based in particular on a pre-existing relationship between the parties, such as a contract that is closely connected with the non-contractual obligation in question.

See Rome II, *supra* note 12, at 11–12.

32. *Id.* Art. 8.

iii. Result

For the issues considered so far, the following conclusions are drawn. First, it is suggested that it is neither necessary nor advisable to deviate from the principle of *lex protectionis* as the basic rule for determining the law applicable to determining the existence and scope of intellectual property rights in transborder conflicts. Second, there hardly seems to be a plausible reason for making a general distinction between registered and unregistered rights in the provision establishing the basic rule for choice of law concerning the existence and scope of intellectual property right. *Lex protectionis* should apply to both.³³

b. Should the Provision Include a Market Impact Rule?

i. Reasons, both Pro and Con, for an Express Regulation: The Example of Rome II

As was pointed out *infra* at Section II(C)(1)(a), the proposed Rome II Regulation does not encompass special provisions on e-commerce and the ensuing problems for transborder IP conflicts. In particular, the proposal does not contain anything which would provide a basis for a restrictive understanding of the notion of an infringement occurring in a particular territory, in the sense that an infringement is only held to occur if it has (substantial, significant) market impact there (market impact rule).

The existence of such a rule may, however, prove to be an essential element for the appropriate assessment of transborder conflicts. This has become particularly obvious in cases concerning conflicting trademark use on the internet (the second scenario mentioned in the introduction, Section I above). Two examples may suffice to illustrate this point.³⁴ In the *Brokat* case decided by the French Court of Appeal in Nanterre in

33. This is different with respect to the issue of initial ownership, where industrial property on the one hand and copyright on the other do pose different questions.

34. For more detailed and comprehensive information about case law in Europe as well as in the United States and Australia, see Richard Garnett, *Trademarks and the Internet: Resolution of International IP Disputes by Unilateral Application of U.S. Laws*, 30 BROOK. J. INT'L L. 925 (2005).

1996,³⁵ two unrelated companies had obtained registrations in France and in Germany respectively for the trademark “Payline” for software used for online banking services. The German company used its mark on its German-only homepage; it did not sell, nor did it offer to sell, its products in France. Nevertheless, a French court, applying French law, arrived at the conclusion that the display of the trademark on the German company’s website infringed the French trademark owner’s right, and ordered the mark to be deleted from the text of the internet website.³⁶ Several years later, before another French court, the owner of the trademark “domina,” protected by registration in France and in several other European countries, claimed infringement by the German-based domain name *domina.net*. In this case, however, the claim was dismissed; the court found *inter alia* that absent a showing of actual harm, that goods ordered from the website had been shipped to France, there was no infringement.³⁷

The result was, however, not due to a different application of choice of law rules. The *Domina* court did not apply any other law than that used in the *Brokat* case, i.e., French law as the law applying in the country where, and for which, protection was claimed.³⁸ Rather, the court interpreted French law differently, taking into account the international character of the conflict as well as the fact that the allegedly infringing act did not—or at least not substantially—affect the domestic market.³⁹

The same approach is reflected in a number of other court decisions from Europe as well as from other parts of the world.⁴⁰ In its essence, this approach complies with the WIPO Joint Recommendation on the Protection of Signs, and Other Rights in Distinctive Signs, Against Use on the Internet, which was adopted in the fall of 2002 by the General Assemblies of WIPO

35. TGI Nanterre, Oct. 13, 1997, SG2 v. Brokat Informations Systeme GmbH [SG2 v. Brokat Information Systems Limited], *available at* <http://www.juriscom.net/txt/jurisfr/ndm/tginanterre19971013.htm>.

36. *Id.*

37. See Asim Singh, *Trademarks and Territoriality in Recent French Case Law*, 17 No. 10 WORLD INTELLECTUAL PROPERTY REPORT 23 (Oct. 2003), *discussing* BD Multimedia v. Joachim H (decided Mar. 11, 2003).

38. *Id.*

39. *Id.*

40. See generally Garnett, *supra* note 34.

and the Paris Convention.⁴¹ In the core provision, Article 2 of the Joint Recommendation, it is stipulated that an infringement shall only be held to occur in a particular territory if its use has commercial effect there.⁴²

The question remains whether these principles should be inserted into an international instrument dealing with choice of law issues. From a strictly systematic point of view, this might be considered inappropriate, because, as was pointed out above, this does not really concern the law to be applied, but rather what constitutes an infringement, i.e., an issue of substantive law,⁴³ or—depending on the approach taken in national law—of jurisdiction.⁴⁴ In accord with this line of reasoning, Article 8.1 of the proposed Rome II Regulation in its present form makes no reference to market impact.

41. Adopted by the Assembly of the Paris Union for the Protection of Industrial Property and the General Assembly of the World Intellectual Property Organization (WIPO) at the Thirty-Sixth Series of Meetings of the Assemblies of the Member States of WIPO on September 24 to October 3, 2001. See *Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights and Signs*, available at http://www.wipo.int/about-ip/en/development_iplaw/pub845.htm (last visited Apr. 17, 2005) [hereinafter *WIPO Recommendation*].

42. *Id.* Art. 2.

43. For a more detailed discussion of the legal nature of the market impact rule see Annette Kur, *Trademark Conflicts on the Internet: Territoriality Re-defined?*, in *IP CONFLICT OF LAW*, *supra* note 7, at 179–82.

44. It has been argued in the German literature that market impact should form part of the criteria determining jurisdiction, meaning that courts must deny their competence to adjudicate an alleged infringement if market impact is missing. It is indeed desirable in principle to apply certain qualifying criteria in order to rule out that mere availability on the internet of potentially conflicting signs will be held sufficient to establish jurisdiction of courts in any country where the conflict exists. However, whether a full and definite evaluation of the market impact rule is already made at the stage of ascertaining jurisdiction, or (as a rule) only afterwards, when the court assesses the merits of the case, is largely a matter of convenience and/or of national traditions and procedural law. For Germany—and probably also for other (continental) European countries—it seems correct to assume that the market impact rule is a matter of “double relevance,” meaning that, although it has an impact for jurisdiction, it will be fully tried only in the framework of assessing substantive infringement. Under U.S. law, on the other hand, to establish jurisdiction under the principle of due process may already involve a full evaluation of all aspects that may be relevant for the assessment of market impact. See Kur, *supra* note 43, at 175.

However, the fact that the European lawmaker, at least until now, saw no need to incorporate an express regulation does not mean that the issue should easily be dismissed. The problems raised by internet communication are typically of a global nature. The question of whether it is advisable to anchor the market impact rule within the framework of choice of law and international jurisdiction provisions must be evaluated differently in such an environment. While there may not be an urgent need for express regulation within a group of countries that are as closely connected with each other as the Member States of the European Union, legal security on the larger international level would certainly benefit from such a rule being spelled out expressly.

ii. Differentiating between Registered and Unregistered Rights?: The Draft ALI Principles

As was pointed out above, the draft ALI Principles may be understood as having taken steps towards differentiation by including, in the basic choice of law provision applying to unregistered intellectual property rights, the rule that the law of any given country should (only) apply if the allegedly infringing act has, or will have, a significant impact on the market.⁴⁵ While that approach appears basically sound, the confinement of the market impact rule to unregistered intellectual property rights is unjustified. There is no pertinent reason why a distinction should be made between the two types of rights for that purpose, as the market impact rule functions similarly for both, ensuring that an alleged infringer will not be held liable with respect to countries where the dissemination of potentially infringing content did not have any, or only minimal, commercial effect.⁴⁶

45. See ALI PRINCIPLES, *supra* note 19.

46. It is true that in addition to limiting the number of countries in respect of which the alleged infringer can be held liable, the market impact rule would also make it clear that the law of countries where no or only minimal impact is shown cannot be invoked as a defense, e.g., by pointing out that the conduct at stake in the proceedings would be legitimate under the law of that country. However, these matters can better be dealt with in the framework of the following provision that regulates infringements carried out in ubiquitous media than in the general rule discussed here.

More critically even, the differentiation made in the rules proposed in the present version of the draft ALI principles could give rise to the (mis)conception that the application of the market impact rule in conflicts involving registered rights is implicitly rejected. This would amount to an open clash with the approach endorsed in the WIPO Joint Recommendation with regard to trademarks⁴⁷ and it would hardly appear to be a sensible solution from a practical point of view. It is therefore submitted that the intention of the reporters formulating Section 301 of the draft ALI principles has by no means been to encourage such an understanding.

Indeed, as was demonstrated above with regard to Article 8.1 of the proposed Rome II Regulation, a “neutral” choice of law provision, i.e., a formulation omitting the market impact rule, does not necessarily entail negative consequences; courts would not, for instance, be barred from taking appropriate account of the international character of a conflict when assessing an infringement under national substantive law. However, as was also stated above, express inclusion of the market impact rule in an international choice of law instrument would definitely increase worldwide legal security. This argument applies with even more force here, where differentiation between registered and unregistered rights risks enhancing the potential for misinterpretation.

iii. Market Impact and Personality Rights (Including Moral Rights)

The above considerations lead to the conclusion that the basic choice of law provision should be expressly supplemented by a market impact rule that applies to all types of intellectual property rights alike. This leaves open the question of how such a rule should be formulated. This rather complex and multifaceted issue requires more thorough elaboration than can possibly be provided in this article.⁴⁸ Nevertheless, it is worth noting that formulation of such a rule would require consideration

47. See *WIPO Recommendation*, *supra* note 41.

48. One aspect which must be clarified—be it in the rules themselves or in an explanatory memorandum—would be that a market impact in a given country cannot be established by the fact that a person sustaining damage has his or her domicile in that country.

of whether reference should be made to “substantial” impact on the market, or merely to market impact, or, like the WIPO Joint Recommendation, to “commercial effect.”⁴⁹ It should also be kept in mind that, whatever the exact formulation would be, the rule will always have to be interpreted in a flexible manner with account being taken of the circumstances of each individual case.⁵⁰

In addition, the following must be considered. While it is correct that in a usual case of intellectual property infringement, the focus should lie on the assessment of the *commercial* effect of the allegedly infringing behavior, a different view must be applied when personality rights or other assets of a personal nature, including the moral rights of authors, are at stake. In these cases, lack of commercial effect should not be a sufficient ground to exclude the application of the law of a country where these rights have been affected by the alleged infringement.⁵¹

This view also seems to be reflected in Section 301(3) of the draft ALI principles, where it is held that the law applicable to the existence and infringement of personal rights should be the law in the country where the damage occurs, without reference being made to the market impact of the damaging act.⁵²

iv. Result

It is proposed that the *lex protectionis* principle endorsed as the basic rule for choice of law in IP matters concerning the existence, validity and infringement of rights should be combined with a market impact rule. No discrimination should be made in that respect between different types of IP rights. With regard to cases involving the infringement of personal rights, including the moral right of authors, however, the application of

49. See *WIPO Recommendation*, *supra* note 41, Part II, Art. 2.

50. For guidelines on this point, see Article 3 of the WIPO Joint Recommendation, *WIPO Recommendation*, *supra* note 41, Part II, Art. 3, which, in turn, has drawn inspiration from U.S. case law concerning jurisdiction in internet cases. See, e.g., *Playboy v. Chuckleberry*, 939 F. Supp. 1032 (S.D.N.Y. 1996); *Bensusan Restaurant Corp. v. King*, 937 F. Supp. 295 (S.D.N.Y. 1996).

51. An even easier solution which is endorsed by a majority in the MPI working group would simply avoid any reference to “market” or “commercial” impact, but would instead refer to “impact” only.

52. See ALI PRINCIPLES, *supra* note 19, § 301(3).

the law of a country where the right has been affected should not be excluded on the ground that market impact is lacking.

c. (How) Should the Basic Rule be Modified with Regard to Multiterritorial Infringement Cases?

i. Creation of Exceptional Rules with Restricted Application

Having accepted *lex protectionis* as the basic rule to be applied for determining the law governing (existence and) scope of intellectual property rights, it is conceded that it will be impossible to abide by a strict application of the country of protection principle when it comes to infringements occurring on a global scale, even if the basic principle is supplemented by a market impact rule. In addition to establishing a general rule like the one proposed above, the task remains, therefore, to promulgate provisions that are capable to cope with such extraordinary situations. In the present version of the draft ALI principles, this task is assumed by Section 302.⁵³ As was pointed out *infra* at Section II(C)(1)(b), the exceptional rule applies where certain factors exist, e.g., where: (1) parties have a pre-existing relationship; (2) surrounding circumstances establish a closer connection with the case than the fact that protection is granted in a given country; (3) it is unduly burdensome for the court to decide on the basis of all the laws of the territories involved; or (4) when the content of the applicable substantive law cannot be ascertained.⁵⁴ A court must then assume the task of identifying the law most suitable to be applied in the case, preferably the law of the country with the closest connection to the dispute. As factors to be taken into account for choosing the appropriate law, the provision refers to the center of gravity of the alleged infringer's business undertaking as well as to the extent of the activities and the investment of the right-holder. Furthermore, attention shall be paid to "the degree to which the desirability of such regulation is generally accepted as evidenced by the

53. *Id.* § 302.

54. Deviation from the country of protection principle shall also be possible if "it is clear from all the circumstances of the case that it is more closely connected to the law of another country" or if "there is a pre-existing relationship between the parties that is closely connected with the claims in issue." *Id.*

TRIPS and successive international laws.”⁵⁵ As a default rule, the law of the forum shall apply.⁵⁶

The issues raised by this provision are too complex to be discussed here in detail. Nevertheless, the following aspects shall be highlighted. As a starting point, it must be remembered that, even in the age of cyberspace, the importance and wisdom of the objectives underlying the territoriality principle should not be forgotten or underestimated: it is essential for safeguarding the sovereign right of individual states to allow those states to decide (to the extent this is compatible with international obligations) whether and how intellectual property should be protected in their own country. There is no doubt that the *lex protectionis* rule, as the principle presently dominating private international IP law, is best suited to ensure that the territoriality principle and its political implications are respected internationally.⁵⁷ As was emphasized *infra* at Section I, it is a basic policy of the Max-Planck project to ensure that these principles are not too easily discarded in the present discussions.

It follows that any deviation from the *lex protectionis* rule

- must be motivated carefully
- should be restricted to those cases where deviation is actually necessary, and
- should be phrased as precisely as possible, regarding both the prerequisites for its application and its legal consequences

It is highly doubtful that a rule like the one presently proposed in the draft ALI principles lives up to these requirements. There is an obvious risk that courts, when applying rules like those contained in Section 302,⁵⁸ will too easily resort to simplifying strategies whenever they find it too burdensome to apply foreign law, possibly with quite critical consequences.

55. See ALI PRINCIPLES, *supra* note 19, § 302.

56. *Id.*

57. For an in-depth analysis of the issue see Richard Fentiman, *Choice of Law and Intellectual Property*, in HEADING FOR THE FUTURE, *supra* note 4, at 129–48; see also Graeme B. Dinwoodie, *Trademarks and Territory: Detaching Trademark Law from the Nation-State*, 41 HOUS. L. REV. 885, 891–907 (2004).

58. See ALI PRINCIPLES, *supra* note 19, § 302.

In order to control such tendencies, the exceptional character of the rule deviating from the basic principle should be established beyond doubt. To that aim, it should be stated in an unmistakable fashion that the *lex protectionis* principle (supplemented by the market impact rule) must be observed as long as the foreign countries for which protection is sought can be, and are, individually specified in the claims. This would be the general rule applying in cases belonging to the first scenario depicted in the introduction (Section I), i.e., when patent or trademark rights existing, typically on the basis of an international registration, in a number of foreign countries are infringed by one person or a number of persons acting together by manufacturing of products in, or delivering into, those countries. Only under the condition that the laws of all those countries—where the infringement takes place and for which protection is sought—have been taken into account, should it be internationally accepted that the judgment becomes valid abroad. Only then must the judgment be observed with respect to acts carried out within, or being (exclusively) targeted to, the countries identified therein. The same rule should also be observed in cases falling under the second scenario, i.e., when the infringement is carried out via global communication media, but can still be specified as occurring in one or several clearly identifiable countries.

Contrary to what is set out in the draft ALI principles,⁵⁹ no exception from the *lex protectionis* rule should be allowed in cases involving a pre-existing relationship between the parties or a common country of domicile. According to the prevailing view in the MPI working group, there is also no reason to provide for exceptions where the court or the parties have difficulties in ascertaining the law of a foreign country, or countries, to be applied in the case.⁶⁰ It is understood, however, that this

59. Allowing deviation under Section 302's exceptional rule. *See id.* § 302.

60. In the paper presented at the October 2004 Brooklyn Symposium, the text of proposed provisions on choice of law had embedded the following provision:

§ 2

(1), (2)...

[(3) If the law of some or several of the countries specified in the claim as countries for which protection is sought cannot be ascertained, the

should not exclude the possibility for national courts to employ default rules that may be available in such a case under municipal private international law.

A different concern that, until now, has not been discussed at length in any of the existing proposals concerns whether, and to what extent, flexibility should be granted to the parties of a conflict to make an *ex-post* choice of the law applicable for determining the remedies imposed.⁶¹ Even though it appears unlikely that such a choice would frequently be made in practice, the issue is worth considering. On one hand, as was pointed out in the introduction, party autonomy may constitute a valid argument on which a deviation from the territoriality/*lex protectionis* principles might be grounded. Although a state's sovereign decisions regarding the content and scope of protection granted for IP rights existing on its own territory must generally be respected, there is in principle no cogent reason why the owners of such rights should not be allowed to waive their right to specific remedies in favor of the application of foreign law, if done so in the framework of a voluntary agreement. On the other hand, before such a rule can actually be embraced,

judgment can proceed from the presumption that the law in that country

(a) does not differ substantially from the law of other countries whose law is considered in the proceedings, and/or

(b) complies with international conventions applicable in the field concerned.

(4) If the aspects mentioned in paragraph (3) (a) and (b) do not furnish a sufficient basis for a presumption, the court shall dismiss the claim regarding the country or countries whose law cannot be ascertained.

(5) A judgment based on a presumption pursuant to paragraph (3) shall not be enforced in a country whose law could not be ascertained in the proceedings, if the law in that country differs from the presumption applied to an extent which would have been decisive for the remedies imposed in the judgment with respect to that country.]

It was, however, decided in subsequent discussions that such a rule is superfluous or even dangerous and should therefore not be inserted in the proposed text.

61. One could, of course, even discuss whether parties should be given freedom to make an *ex-post* choice of the law applicable to the conflict as such. However, the interests of third parties might be affected in such a case even more than by a choice of law regarding sanctions only.

the question must be investigated whether the acceptance of *ex-post* choice of law with regard to remedies would encroach upon the interests of third parties in a manner that would make such a choice unacceptable due to superior policy reasons. After all, the protection of third-party interests may, at least indirectly, constitute a valid objective of the sanctions regime established under a given national law. In that context, one may have to consider whether the freedom to choose the applicable law with regard to sanctions, if acceptable at all, should only concern the quantitative aspects—such as the computation of damages—or the whole arsenal of available remedies, i.e., whether it should even comprise sanctions that would not be available at all under the normally applicable national law(s). Lastly, it might be discussed whether, for reasons of efficiency and convenience, the option for an *ex-post* choice of law should be restricted to the *lex fori*.⁶²

ii. Principles Constituting the Exceptional Rule

While the rules depicted thus far remain grounded on the *lex protectionis* principle, with limited exemptions based solely on the aspect of party autonomy, one must inevitably also consider a provision enabling the application of, if possible, only one single set of rules instead of a multitude of different national laws. The need for such a rule arises mainly in the cases falling under the third scenario mentioned in the introduction, i.e., in cases when the alleged infringement cannot be located in one or several specific territories (ubiquitous infringements).⁶³ This situation will regularly, although not necessarily, arise with regard to (copyright) infringements carried out on the internet or through comparable media. In addition, the formulation of such a rule is also of interest for cases where the conflict itself is not ubiquitous, but where the remedies claimed with regard to

62. See, e.g., Swiss law, where parties' choice of law (if admissible at all) is restricted to municipal law.

63. See e.g., *Elektra Entertainment Group, Inc. v. Bryant*, 2004 U.S. Dist. LEXIS 26700 *19–20 (D. Cal. 2004) (“Defendant’s means of infringement—an online media distribution system with tens of millions of potential users—has left Plaintiffs’ sound recordings vulnerable to massive, repeated, near-instantaneous, and worldwide infringement.”).

transborder conflicts are such that they affect, for legal or practical reasons, other territories (remedy overspill)⁶⁴ as well.⁶⁵

The most sensible solution with regard to such exceptional cases would be to apply the law of the country having the closest connection to the infringement in its entirety. This is also the solution endorsed in the draft ALI principles.⁶⁶ Pending further deliberations on how the determination should be made, it is foreseeable that the primary choice will often be between the country where the harmful effect of the infringement is felt most and the country from which the infringement originates.⁶⁷ This will typically coincide with the rightholder's and defendant's main places of respective business. The key problem resulting from this constellation concerns the fact that if the legal situation in both countries differs materially with respect to an issue that is decisive for the judgment, the choice between the two sets of rules will be very difficult and risks being arbitrary. It cannot be ignored that in such a situation, there will be a strong tendency to favor the *lex fori*. As, according to the structure of international principles currently under debate, the choice of forum is regularly made by the rightholder,⁶⁸ with a

64. The problem of remedy overspill does not only occur in situations falling under the third scenario. It is also frequently addressed under the second scenario, and may even occur in cases falling under the first scenario. See, e.g., TGI Nanterre, Oct. 13, 1997, SG2 v. Brokat Informations Systeme GmbH, available at <http://www.juriscom.net/txt/jurisfr/ndm/tginanterre19971013.htm> (second scenario); N.F.L. v. Primetime 24 Joint Venture, 211 F.3d 10 (2d Cir. 2000) (first scenario). To prohibit the broadcasting in the United States makes impossible also the transmission of programs to Canada, where this is perfectly legal.

65. See e.g., N.F.L. v. Primetime 24 Joint Venture, 211 F.3d 10 (2d Cir. 2000).

66. See ALI PRINCIPLES, *supra* note 19, § 302 (2).

67. This corresponds to the factors mentioned in the draft IP principles. *Id.*

68. In that respect, draft IP principles as well as the MPI proposal, presented in HEADING FOR THE FUTURE, *supra* note 4, at 307 app., follow the structure set out in the 1999 DHJC, HAGUE CONFERENCE ON PRIVATE INTERNATIONAL LAW, PRELIMINARY DRAFT CONVENTION ON JURISDICTION AND FOREIGN JUDGMENTS IN CIVIL AND COMMERCIAL MATTERS (adopted Oct. 1999), available at http://www.hcch.net/upload/wop/jdgm_drafte.pdf (last visited Apr. 2, 2005) [hereinafter HAGUE JURISDICTION CONVENTION]. It is for the plaintiff to choose the forum. However, if an alleged infringer claims for declaration of non-infringement, a subsequent claim by the rightholder for substantive

possible option to consolidate worldwide proceedings before the courts in his or her home country,⁶⁹ the negative consequences to the defendant must be taken very seriously. The following proposals should therefore be discussed as an instrument for counterbalancing possibly detrimental effects:

*Alternative A:*⁷⁰ If, in cases falling under the exceptional rule it is indeed the plaintiff who chooses the forum, and in particular if this includes the option to bring the case before the courts in her home country, a presumption should operate in favor of the defendant, to the effect that the law applying in the defendant's country of domicile has the closest connection with the case, unless the plaintiff adduces sufficient evidence establishing that another country has a closer connection.

Alternative B: As an alternative solution, the principle could be enshrined in the provision that whenever a court applies one national law with regard to ubiquitous infringements, the following rules must be observed. First, the sanctions imposed on the basis of the law applied by the deciding court must be proportionate to the impact of the activities on the market of the forum state and/or other states where the activities are found to be illegal on the basis of the national law(s) applying there. Furthermore, no sanctions may be imposed which would forbid, or interfere with, legitimate business carried out by the alleged infringer in another country impacted by the same activities, unless, and to the extent that, this is indispensable in order to safeguard the legitimate interests of the party whose rights are claimed to be infringed.⁷¹ In order to ensure full compliance with that principle, the alleged infringer must retain the right to be heard with the argument that his or her conduct is admissible pursuant to the law of another country which is impacted by the same activities.

remedies will prevail. Hence, for all practical purposes, it is always the rightholder who has the choice of forum.

69. This applies to the draft IP principles, and it would also result from the last half-sentence of Article 10.4 of the 1999 DHJC (now obsolete). See HAGUE JURISDICTION CONVENTION, *supra* note 68. By contrast, the option for a rightholder to consolidate proceedings in his or her home country is considerably more restricted in the MPI proposal. See Kur, *supra* note 4, at 28; see also Kur, *European Perspective*, *supra* note 10, at 69.

70. This proposal goes back to a suggestion made by Paul Torremans.

71. See Kur, *European Perspective*, *supra* note 10, at 69.

The second alternative proposal is modeled on Articles 13 through 15 of the WIPO Recommendation on the Use of Signs on the Internet.⁷² While this scheme admittedly works well for trademarks,⁷³ it remains to be seen whether it is equally capable of resolving the more complex problems arising in other fields, copyright in particular. Exploring this issue in more detail will be at the forefront of the MPI working group's future agenda.

iii. Result

It is proposed that an exceptional rule allowing for application of one set of national substantive law provisions instead of abiding by the *lex protectionis* approach should be restricted to cases when deviation is actually needed, i.e., when it is not possible to determine the countries where the infringement has occurred, is occurring or is threatening to occur, and to specify these countries in the claims. The exceptional rule should contain elements preventing the court from too readily applying the law of the forum, and from imposing sanctions that would unduly interfere with legitimate business carried out abroad.

d. Text of Proposed Choice of Law Rules

While, admittedly, some variation in choice of law rules regarding IP conflicts is necessary to accommodate new technological developments, the proposals submitted below adopt a cautious approach to change. As mentioned above, the old rules on territoriality and *lex protectionis* should be observed as faithfully as possible even in the cyberspace age. Based on this concern, and the previous deliberations above, the following tentative text is proposed for further discussion:

§ 1

General Rule

72. See *WIPO Recommendation*, *supra* note 41, Part VI, Arts. 13–15.

73. See *infra* Section II(C)(2)(b)(1)(i); see also Garnett, *supra* note 34. Of course, although the appropriateness and feasibility of the rules are generally accepted in trademark law, their application in an individual case may still pose intricate legal and practical problems.

- (1) As a general rule, the law applicable to determine the existence, validity and scope of intellectual property rights is the law of the country for which protection is sought:
- (2) The country for which protection is sought is
 - (a) the country, or each country, for which the claim as regards the existence or validity of the intellectual property right shall become effective,
 - (b) the country, or each country, in which, according to the claim, an infringement occurs and where, or with respect to which, the remedies sought shall become effective.
- (3) For the application of paragraph (2) (b) in trans-border conflicts, an alleged infringement shall only be held to occur in a country if it has [a] [substantial] impact on the domestic market.
- (4) Notwithstanding paragraph (3), an alleged violation of a personal right (including the moral right of authors) is held to occur in the country [or in each country,] where the right is affected.

§ 2

Infringement occurring in several countries specified in the claim

- (1) If, pursuant to § 1, infringements for which relief is claimed in the proceedings occur in several countries, the law of each country which is specified in the claim as a country for which protection is sought shall be applied.
- (2) [The parties in a conflict involving the infringement of an intellectual property are entitled to choose the law applicable to the remedies imposed for the infringement.]

§ 3

Infringement occurring in an unspecified number of countries⁷⁴

- (1) If infringement proceedings are concerned with an alleged infringement that is ubiquitous, meaning that it occurs, or may occur, in an indefinite number of countries, which therefore cannot be specified in the claims, the court shall

74. See ALI PRINCIPLES, *supra* note 19, § 302.

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apply the law of the country having the closest connection with the infringement in its entirety.

- (2) In determining which country has the closest connection, the court shall take the following into account:
- (a) the centre of gravity of the alleged infringer's business undertaking, [as measured as objective factors];
 - (b) the extent of the activities and the investment of the rightholder.

Alternative A:

- (3) If the factors listed in (2) (a) and (b) point towards different countries, the court shall presume that the country having the closest connection with the infringement is the country where the defendant is domiciled, unless the plaintiff establishes that another country has a closer connection with the infringement in its entirety.
- (4) If the court finds that the country having the closest connection with the infringement in its entirety cannot be established pursuant to the rules under (2) and (3), it shall limit the remedies imposed proportionally to the harmful effects occurring in the country or countries where the allegedly infringing conduct is prohibited under the law applicable in that country or countries.

Alternative B:

- (3) The sanctions imposed on the basis of the law deemed by the deciding court as the law having the closest connection with the case must be proportionate to the impact of the activities in
- the forum state and/or
 - other states where the activities are found to be illegal on the basis of the national law(s) applying there.
- (4) No sanctions may be imposed which would forbid, or interfere with, legitimate business carried out by the alleged infringer in another country impacted by the same activities, unless, and to the extent that, this is indispensable in order to safeguard the legitimate interests of the party whose rights are claimed to be infringed. Notwithstanding the law deemed by the deciding court as the law having the closest connection with the case, the alleged infringer shall retain the right to claim and, if necessary, to establish that his or her conduct is admissible pursuant to the law of another country which is impacted by the same activities.

THE CONUNDRUM OF CORPORATE GOVERNANCE

*Cally Jordan**

I. INTRODUCTION

It has become a truism that the pressures of the capital markets will improve the governance of corporations; equally, that improvements in corporate governance will promote development of the capital markets. However, the relationship of the capital markets to the governance of corporations is neither simple nor linear; rather it is more in the nature of a complex feedback loop, a dynamic process responsive to many factors.

The efforts to identify the factors which promote capital market development and improvements in corporate governance have spawned a huge body of literature. Central to the discourse has been the role of legal systems and legal rules. The popularity and proliferation of international standards, among other factors, have resulted in massive transfers of legal information, but often the relative ineffectiveness of transplanted legal rules has proved a conundrum.

This article builds on previous literature looking at how to predict the effectiveness of transplanted legal concepts and the implications for corporate governance initiatives and capital market development. The recent economics literature has ignored the complexity and dynamism of legal systems. More tellingly, the “legal origins” literature has misunderstood the fundamental nature of the benchmark U.S. legal system, the genius of which, according to some commentators, resides in its combination of elements of both the common law and the civil law traditions.

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So, more discernment is needed in introducing new legal concepts, particularly in what are now sometimes referred to as "frontier economies," as well as greater attention being paid to the essential process of "indigenization." Even the form a legal rule takes can be as important as its substance. Indiscriminate mixing and matching of legal rules, such as that occurring in the aftermath of mass privatizations that marked the 1990s, can easily go awry. The result may be dysfunctional or unbalanced systems with unpredictable, and certainly unintended, consequences. At worst, perversities may occur, for example, where a deliberately ineffective rule is introduced domestically, seemingly in furtherance of the implementation of internationally recognized standards.

Adding to the complexity of the operation of formal legal rules is another complex layer, "legal sensibilities," an often ignored but essential element to the effectiveness of any legal rule. Fiduciary duties, for example, one of the cornerstones of Anglo-American corporate governance, are imbued with the legal sensibilities of a particular time and place and may travel badly, if at all, to other climes.

These observations may have some predictive value in gauging the potential effectiveness of any particular initiative. "Voluntary" codes and procedural remedies drawn from Anglo-American law, for example, may not be the most effective means of channeling market forces to the improvement of the governance of corporations in continental European-style legal systems. Governance mechanisms introduced in multiple guises along a continuum of private and public rule may amplify the prospects of effectiveness.

Finally, new models for markets and capital markets regulation are emerging in Europe, models that may be more compatible with the legal systems of much of the non-Commonwealth world.

II. THE DEBATE

The events of the last fifteen years rival the South Sea Bubble and tulip mania in focusing popular attention on capital

markets and corporations.¹ There have been spectacular market surges and market failures accompanied by a panoply of regulatory and private sector responses. The intensity of the activity and its consequences have raised fundamental questions as to how capital markets, and financial systems generally, grow and develop and the role of corporate actors.

The efforts to identify the factors which promote capital market development and improvements in corporate governance have spawned a huge body of literature. Central to the discourse has been the role of legal systems and legal rules. Are some legal systems better than others in fostering financial sector development?² Can formal legal rules from such systems be transplanted to other systems to promote better corporate governance and the development of capital markets?³ Will there be inevitable convergence of the rules of “weaker” legal systems to those of “stronger” legal systems?⁴ Can international standards

1. The recent 2004 release *THE CORPORATION*, a film by Mark Achbar, Jennifer Abbott & Joel Bakan, is an indication of the degree to which the debate has entered popular culture.

2. See Rafael La Porta et al., *Law and Finance*, 106 J. POL. ECON. 1113 (1998); Rafael La Porta et al., *Investor Protection and Corporate Governance*, 58 J. FIN. ECON. 3 (2000); Rafael La Porta et al., *Investor Protection and Corporate Valuation*, 57 J. FIN. 1147 (2001). More recently, see LA PORTA ET AL., *WHAT WORKS IN SECURITIES LAWS?* (Tuck School of Bus., Working Paper No. 03-22, July 16, 2003), available at <http://www.ssrn.com/abstract=425880> (last visited May 20, 2005). The legal origins literature referred to in this article is primarily based on the La Porta studies:

Because legal origins are highly correlated with the content of the law, and because legal families originated before financial markets had developed, it is unlikely that laws were written primarily in response to market pressures. Rather the legal families appear to shape the legal rules, which in turn influence financial markets...legal rules do matter.

La Porta et al., *Investor Protection and Corporate Governance*, at 3. For a comprehensive discussion of the literature, see Katharina Pistor et al., *The Evolution of Corporate Law: A Cross-Country Comparison*, 23 U. PA. J. INT'L ECON. L. 791 (2002).

3. See KATHARINA PISTOR, *PATTERNS OF LEGAL CHANGE: SHAREHOLDER AND CREDITOR RIGHTS IN TRANSITION ECONOMIES* (European Bank for Reconstruction and Development, Working Paper No. 49, May 2002), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=214654 (last visited May 20, 2005).

4. For discussions of the convergence theory, see William W. Bratton & Joseph A. McCahery, *Comparative Corporate Governance and the Theory of*

be formulated to provide guidance to developing and transition economies, and if so, based on what?⁵ And, the conundrum of corporate governance, why are “good” legal rules so often ineffective?

There are still more questions than answers:

the Firm: The Case Against Global Cross Reference, 38 COLUM. J. TRANSNAT'L L. 212 (1999). Cf. JOHN C. COFFEE, COMPETITION AMONG SECURITIES MARKETS: A PATH DEPENDENT PERSPECTIVE 17 (Colum. Law School, Ctr. for Law and Econ. Studies, Working Paper No. 192, Apr. 2002), available at <http://www2.law.columbia.edu/law-economicstudies/papers/wp192.pdf> (last visited May 20, 2005); John C. Coffee, *The Future as History: The Prospects for Global Convergence in Corporate Governance and Its Implications*, 93 N.W. U. L. REV. 641 (1999). In addition, Jeffrey N. Gordon and Mark J. Roe have recently published a collection of papers on the convergence debate in CONVERGENCE AND PERSISTENCE IN CORPORATE GOVERNANCE (2004).

5. Both the International Organization of Securities Commissions (IOSCO) and the Organization for Economic Cooperation and Development (OECD) have been active in formulating influential standards in the area of capital markets and corporate governance. See, e.g., IOSCO, *Objectives and Principles of Securities Regulation*, May 2003, available at <http://www.iosco.org/pubdocs/pdf/IOSCOPD154.pdf> (last visited May 20, 2005) (revising the 1998 *Objectives and Principles of Securities Regulation* and used extensively by the World Bank and the International Monetary Fund in their program of country Reports on the Observance of Standards and Codes (ROSCs), which have been conducted in dozens of countries to date); IOSCO, *International Disclosure Standards for Cross-Border Offerings and Initial Listings by Foreign Issuers*, Sept. 1998, available at <http://www.iosco.org/pubdocs/pdf/IOSCOPD81.pdf> (last visited May 20, 2005) (which have formed the basis of both U.S. S.E.C. and E.U. regulatory initiatives); OECD, *Principles of Corporate Governance*, 2004 revision, available at <http://www.oecd.org/dataoecd/32/18/31557724.pdf> (last visited May 20, 2005) (also used extensively in the ROSC exercises).

The *OECD Principles of Corporate Governance* were endorsed by the OECD Ministers in 1999 and have since become an international benchmark for policy makers, investors, corporations and other stakeholders worldwide. They have advanced the corporate governance agenda and provided specific guidance for legislative and regulatory initiatives in both OECD and non-OECD countries. The Financial Stability Forum has designated the *Principles* as one of the 12 key standards for sound financial systems. The *Principles* also provide the basis for an extensive programme of co-operation between the OECD and non-OECD countries and underpin the corporate governance component of World Bank/IMF Reports on the Observance of Standards and Codes (ROSC).

Id. at 3.

In these globalizing times, corporate law's leading question is whether one or another national corporate governance system (or component thereof) possesses relative competitive advantage Unfortunately, even as these descriptions become thicker and more cogent, answers to the bottom-line questions respecting competitive advantage have become more elusive and convergence predictions have become more qualified.⁶

Amid the thicket of discourse, speculation and experimentation on corporate governance and capital market development, a few guideposts peek through. Legal rules and legal families do matter.⁷ Political structures matter.⁸ History matters.⁹ Legal rules can be more or less resistant to change.¹⁰ Forces of convergence and divergence operate selectively on legal rules.¹¹ Legal sys-

6. Bratton & McCahery, *supra* note 4, at 213

(“Related questions about competitive advantage and convergence to best practice come up in domestic policy discussions in many countries. Concerns about local firms’ performance in international markets turns attention to alternative governance practices identified in international comparisons: If competitive advantage lies elsewhere, then domestic practice should be reformed to follow the international leader. An extensive body of studies addresses these questions, identifying and evaluating national variations in management and financial practices, industrial organization, and corporate and securities laws.”).

7. See Rafael La Porta et al., *Investor Protection and Corporate Governance*, 58 J. FIN. ECON. 3, 3 (2000).

8. RAGHURAM G. RAJAN & LUIGI ZINGALES, *THE GREAT REVERSALS: THE POLITICS OF FINANCIAL DEVELOPMENT IN THE 20TH CENTURY 1-72* (Nat’l Bureau of Econ. Research, Working Paper No. 8178, 2001).

9. On the effect of the manner in which legal rules are introduced into a system, e.g., by conquest, colonization, etc., see PISTOR, *supra* note 3; DANIEL BERKOWITZ ET AL., *ECONOMIC DEVELOPMENT, LEGALITY, AND THE TRANSPLANT EFFECT* (Davidson Inst., U. Mich., Working Paper No. 410, Sept. 2001), *available at* <http://www.bus.umich.edu/KresgeLibrary/Collections/Workingpapers/wdi/wp410.pdf> (last visited May 20, 2005).

10. See *generally* LUCIAN ARYE BEBCHUK & MARK J. ROE, *A THEORY OF PATH DEPENDENCE IN CORPORATE OWNERSHIP AND GOVERNANCE* (Colum. Law School, Ctr. for Law and Econ. Studies, Working Paper, No. 131, 1999), *reprinted in* 52 STAN. L. REV. 127 (1999); COFFEE, *COMPETITION AMONG SECURITIES MARKETS*, *supra* note 4.

11. Cally Jordan, *Experimentation in Capital Markets Regulation*, Presentation at the International Organization of Securities Commission’s (IOSCO) Seminar Training Program (Oct. 25, 2000).

tems are systems and legal concepts are not indiscriminately interchangeable components.¹²

Rafael La Porta, Florencio Lopez-de-Silanes, Andrei Shleifer and Robert Vishny (LLSV), in an influential series of papers, turned the spotlight on the relationship of legal rules and development of financial markets, the so-called “legal origins” literature. LLSV looked to the two main legal traditions in developed economies, the Anglo-American common law tradition and the continental European “civil” or Romano-Germanic legal tradition, to conclude that the level of legal enforcement and the origin of the rules correlated to the level of development of both equity and debt markets.¹³ Measures of investor protection appeared superior in common law countries and translated into more vibrant equity markets, they surmised from their findings.¹⁴

The implication, that common law systems are superior in fostering sophisticated financial systems, was bound to sow controversy and did not go long unchallenged:¹⁵

First, it does not seem that legal or cultural impediments to financial development are as serious as one might have concluded from recent literature. Somewhat facetiously, one does not have to have the good fortune of being colonized by the British to be able to have vibrant financial markets. However, the main impediment we identify—the political structure within the country—can be as difficult to overcome as more structural impediments.¹⁶

Both lines of thought are significant and not necessarily incompatible; each identifies a major determinant in the functioning of financial markets, the legal rules or, more precisely, the legal family or tradition to which they belong, and the political structures which create, support, or possibly, undermine them. Le-

12. See Bratton & McCahery, *supra* note 4, at 215; Cally Jordan, Law Matters: Corporate Governance Legal Reforms in Asia and Their Implications for the ECA Countries, Presentation at the World Bank (Sept. 27, 2000), available at http://www.worldbank.org/wbi/corpgov/eastasia/core_pdfs/jordan_law_matters.ppt (last visited Sept. 20, 2004).

13. See Bratton & McCahery, *supra* note 4.

14. Cf. Bratton & McCahery, *supra* note 4, at 228–30.

15. RAJAN & ZINGALES, *supra* note 8.

16. *Id.* at 7.

gal rules or, more precisely again, statutory law, are the product of and dependent upon political action.

This debate, and the related one of convergence or divergence in corporate governance systems, caught the eye of Katharina Pistor, then a legal scholar at the Max Planck Institute in Hamburg. Proponents of both a convergence theory and a divergence (or path dependency) theory “regard legal institutions as important for promoting or hindering convergence, but differ in their assessment of the propensity of a particular body of law, such as corporate law, to achieve this goal.”¹⁷ Pistor’s conclusion: “a simple convergence story does not do justice to the complexity of legal change.”¹⁸

Obviously intrigued by the complexity of legal change, Pistor has gone on to look at “legal transplants” or the “transplant effect” in corporate law and the relative effectiveness of hybridization.¹⁹ How do legal concepts from one system fare when transplanted to another? Her conclusion here is that the manner of transplantation of a legal concept is significant. The extent to which a “foreign” legal concept has been voluntarily introduced or embraced (as opposed to imposed, for political or other reasons), is a predictor of effectiveness.²⁰

17. See PISTOR, *supra* note 3, at 4

(“There is a lively debate in the corporate governance literature about these alternative patterns of institutional development and in particular about the role of law for convergence or divergence of corporate governance systems. Proponents of the divergence, or path dependence, hypothesis argue that even if the corporate law was harmonized across countries, other legal rules (tax laws, codetermination legislation etc.) and institution constraints (financial structure, existing ownership structure of firms), or simply political considerations would stand in the way of convergence. The opposite view holds that convergence is likely to take place, once the main regulatory obstacles are removed. The economic forces towards success, they suggest, are the same all over the world.”).

18. *Id.* at 46.

19. BERKOWITZ ET AL., *supra* note 9.

20. *Id.* There is a rich comparative literature on legal transplants and the process of “reception” of non-indigenous legal concepts. See Pierre Legrand, *The Impossibility of Legal Transplants*, 4 MAASTRICHT J. EURO. & COMP. L. 111 (1997).

III. LEGAL TRANSPLANTS AND INTERNATIONAL STANDARDS:

"IDEAS HAVE WINGS"²¹

The promotion of "international standards" in both capital markets and corporate governance has contributed to the proliferation of legal transplants. Dozens of international standards are being proposed (and, arguably, imposed) in financial sectors around the world.²² The popularity of international standards is often taken as an important indicator of the inevitable, and desirable, convergence of legal rules. The pressures to conform to "international standards" can be attributed to a number of factors: heavy promotion by the international financial institutions and development agencies such as the International Monetary Fund and the World Bank, the allure of "brand name" legal solutions, and the influence of the LLSV literature (which correlates common law systems to more highly developed financial markets). The attractive simplicity of some international standards may also explain their popularity; pitched at a level of generality, they are readily accessible. A casual perusal of the *OECD Principles of Corporate Governance*²³ has created many an instant expert.

However, international standards have not been picked out of thin air. Their legal origins can be traced back to national sys-

21.

Ideas have wings. No legal system of significance has been able to claim freedom from foreign inspiration. Roman law "borrowed" from Greek law, Greek law from the laws of Crete and Egypt. The commercial usages of the flourishing city states of medieval Italy have laid the foundations of modern mercantile law....There is, therefore, nothing extraordinary about the adoption of "foreign" legal ideas, doctrines and even whole codes.

H. R. HAHLO & ELLISON KAHN, *THE SOUTH AFRICAN LEGAL SYSTEM AND ITS BACKGROUND* 484 (1973).

22. See Cally Jordan & Giovanni Majnoni, *Financial Regulatory Harmonization and the Globalization of Finance*, in *GLOBALIZATION AND NATIONAL FINANCIAL SYSTEMS*, at 259, 274-75

("[T]he proliferation of international standards and codes may exemplify the lack of coordination that often precludes 'first-best' approaches to market regulation. The establishment of the Financial Stability Forum (FSF) was specifically directed toward preventing such an outcome. As of February 2000 the FSF had identified 43 different codes and was considering 23 more for inclusion.").

23. See *supra* note 5.

tems and, in capital markets and corporate governance, predominantly common law ones. In many economies, both developed and developing, adoption of a current international standard may also entail, explicitly or implicitly, adoption of foreign legal concepts, or legal transplants, as well. Some transplants may thrive; others may be so incompatible with the underlying legal system as to never take root.

Gauging the effectiveness of these burgeoning international standards, and the extent of convergence of national legal systems to them, however is no easy matter. “[T]he empirical evidence that links indicators of efficiency and stability to the legal and regulatory framework has been based on indicators that have only an indirect relationship with the degree of compliance with international standards and codes.”²⁴ The tenuous relationship between the adoption of international standards and the effectiveness of the legal rules embedded in them deepens the conundrum of corporate governance:

It may be more useful for countries with very small, illiquid stock markets, to assess the conditions for establishing regional markets or for firms to access liquid foreign markets rather than to assess national compliance with IOSCO standards that reflect the experience of regulators with markets of average size and liquidity.²⁵

24. Jordan & Majnoni, *supra* note 22, at 275

“A serious difficulty that dogs efforts of coordination of standards and codes is the relative absence of empirical evidence demonstrating a relationship between compliance with standards and financial stability. The initial evidence that linked indicators of legal and regulatory structure to the stability of banking and financial systems is based on very aggregate indicators of structure. Only recently new empirical work has started to test the nature of relationship of specific and more detailed specification of regulatory structures with financial development and stability.”)

25. *Id.* at 274 (“One of the weaknesses of the standards and codes approach and of its operational legs (the FSAP and the Report on Observance of Standards and Codes programs) is to consider small, emerging economies as Lilliputian replicas of large, industrialized ones.”). As Majnoni commented in a prior version of this paper, “In keeping with literary analogies, a more appropriate perspective might be that of Saint Exupery’s *Petit Prince* whose major concern was the effect of trees and animals imported from Earth on his tiny planet. He should have added financial institutions.” (manuscript on file with the author).

The conundrum is notable in the context of the transition economies of Eastern and Central Europe: the co-existence of high quality formal legislation, a product of "an external supply of legal solutions"²⁶ and low levels of effectiveness.²⁷ Arguably, effectiveness of recent reforms in developing and transition economies has been inversely related to the degree of convergence to international standards. Why is this so?

IV. DYNAMISM AND COMPLEXITY

In the rush to international standards, a basic lesson from comparative legal scholarship has been forgotten: legal systems are both complex and dynamic.²⁸ "Legal systems never are. They always become."²⁹ Legal systems evolve over time by inventing, adapting, borrowing, and having change thrust upon them. There are often redundancies, contradictions, and fossilized concepts or practices of no current significance embodied in formal legal rules.³⁰ In addition, any one legal concept, in any one system, at any one time, exists and operates in a complex

26. See PISTOR, *supra* note 3, at 46.

27. *Id.* at 47

("Weaknesses in the governance structure that are noted today are often attributed to weaknesses in the law, which in turn leads to new proposals for improving statutory law. The evidence of the quality of the law on the books, however, suggests that this is at best a partial story. The level of shareholder and creditor rights protection in transition economies today is higher than in many other countries. Other factors, including the dynamic of the reform process and its impact on the development of effective institutions to enforce the new law, need to be analyzed more closely in order to understand the remarkable difference in the governance of firms despite the trend towards convergence of the law on the books.")

28. See Ugo Mattei, *Three Patterns of Law: Taxonomy and Change in the World's Legal Systems*, 45 AM. J. COMP. L. 5 (1997).

29. *Id.* at 14.

30. Arguably, cumulative voting, discussed *infra*, is one of the latter, having been displaced, as a practical matter, by statutory provisions permitting direct representation on the board through the action of voting groups. See MODEL BUS. CORP. ACT § 8.04 (1979). For example, chapter 607.0804 of the Florida Business Corporations Act (FBCA) reads, "The articles of incorporation may confer upon holders of any voting group the right to elect one or more directors who shall serve for such term and have such voting powers as are stated in the articles of incorporation." FLA. STAT. ch. 607.0804 (1999).

relationship with a myriad of other concepts.³¹ Put simply, “legal systems are the result of a layered complexity that stems from the accidents of legal history and from legal transplants.”³²

The complexity and dynamism of legal systems provide yet another twist to the convergence/divergence debate. The forces of convergence and divergence operate contemporaneously, but selectively, on different kinds of legal rules. Relatively recent statutory law in highly regulated and internationalized areas, such as capital markets or banking regulation, may be very sensitive to the forces of convergence. Older, more established bodies of law, such as companies or corporate law which have their origins in the nineteenth century, are more “path dependent,”³³ more resistant to change and to the absorption of “foreign elements.” The more basic the legal concept, the deeper its roots and, arguably, the more impervious to external change, to the forces of convergence, it becomes. Concepts of contract, status, and property, for example, reach back hundreds and thousands of years, and these concepts form the core of corporations law.³⁴

31. For example, in the United States, state corporate law contains provisions with respect to the use of proxies in shareholder voting. For publicly traded corporations, however, SEC regulations on proxy voting are much more significant and extensive, rendering the state provisions more or less irrelevant. Corporate law itself draws together concepts of status, contract, property, agency, trust law, etc. Directors’ fiduciary duties, that cornerstone of Anglo-American corporate governance, have no one single form of expression. Fiduciary law concepts were developed by the early English courts of equity and still find their fundamental expression through the courts. In addition, various statutory formulations in U.S. corporate law (the familiar duty of care and duty of loyalty provisions, see MODEL BUS. CORP. ACT § 8.30 (1999)), draw on the very different concepts of negligence and trust law. The courts provide further judicial glosses on existing statutory provisions, and in many states, later enactments in reaction to judicial decisions, such as *Smith v. van Gorkom*, significantly undercut the coterminous, but earlier, general statutory duties. See generally *Smith v. van Gorkom*, 488 A.2d 858 (Del. 1985). See, e.g., FLA. STAT. § 607.0831 (severely limiting directors’ liability for breaches of duty.).

32. Mattei, *supra* note 28, at 13–14.

33. See BEBCHUK & ROE, *supra* note 10, at 154.

34. Roman law concepts have persisted over several thousand years, in both the common and civil law traditions, the common law having undergone a period of “early” reception of Roman law. “One of the effects of the Norman conquest was to throw England into closer intellectual contact with the Continent....During the twelfth and thirteenth centuries, when the foundations of

Further, legal concepts are part of complex systems and operate interdependently within their system. Capital market rules interact with corporate law rules, which themselves are grounded in notions of contract, status and property. Legal rules that, in theory, should be effective at one level, could be disabled by conflicts or incompatibility at another level. The grief which followed mass privatizations of the 1990s can be attributed to the indiscriminate mixing and matching of legal rules, a process of transplantation which resulted in dysfunctional or imbalanced feedback loops. Corporate governance systems could not support capital markets and nascent or ailing capital markets collapsed or declined. Without the disciplines of the capital markets, corporate governance systems faltered. This is not the whole story, of course, but it is a part of it.³⁵

Adding to the complexity of the operation of “formal” legal rules is another complex layer, sometimes referred to as “legal sensibilities.”³⁶ Legal sensibilities consist not only of “rules and principles which can be cast in propositional form, but also of higher order understandings, received techniques, constellations of values and shared ways of perceiving reality, which are pervasive, often subtle, and themselves deeply layered in complex and important ways.”³⁷ A keystone to modern corporate

the common law were being laid, Roman law...exercised great influence in England...” HAHLO & KAHN, *supra* note 21, at 504. Roman “civil law” deals primarily with concepts of status, property and contract, the backbone of the great nineteenth-century civil codes.

35. The “tunneling” and looting of corporate assets in the 1990s that occurred in Slovakia and the Czech Republic in the wake of mass privatizations have been the subject of a number of studies. See, e.g., John Nellis, *Time to Rethink Privatizations*, in TRANSITION ECONOMIES FINANCE AND DEVELOPMENT 16 (1999). With respect to the Czech Republic, John Nellis writes that “While the most visible reasons for inadequate enterprise restructuring are weaknesses in capital and financial markets, the voucher privatization method itself—with its emphasis on speed, postponement of consideration of many aspects of the legal/institutional framework and initial atomization of ownership—is seen as the underlying cause.” *Id.* at 17.

36. SCHLESINGER ET AL., *COMPARATIVE LAW: CASES, TEXT, MATERIALS* 288 (6th ed. 1998) (citing Clifford Geertz, *Local Knowledge: Fact and Law in Comparative Perspective*, in LOCAL KNOWLEDGE: FURTHER ESSAYS IN INTERPRETIVE ANTHROPOLOGY 167, 215 (1983)).

37. SCHLESINGER ET AL., *supra* note 36, at 288–89.

governance theory, the fiduciary duty, for example, is imbued with the legal sensibilities unique to its time and place.³⁸

V. THE PUBLIC FACE OF LAW

In the search for answers to the conundrum of corporate governance, the focus has been primarily on what this paper calls “public legal rules”: legislation, regulation, and to a much lesser degree, efforts of the judiciary. These rules constitute the public face of law. That much of the legal content of international standards has been drawn from statutory law is not surprising as statutory law is the most visible and accessible layer of a legal system. Statutory law, however, may only be the tip of the iceberg. The true significance of statutory law, too, may not be what it seems in that its role and importance in positing normative principles can vary from system to system.³⁹

Drawing indicia of investor protection and good corporate governance from national corporate statutes, the easiest and most obvious sources, may also be highly misleading, depending on the role of statutory law in a system (peripheral, supplemental, fundamental). An aging body of statutory law may also be deceptive; legal systems are dynamic and statutory law inflexible, ossifying over time with concepts that no longer function as they once did.⁴⁰ Moreover, corporate governance mechanisms may not be in the “corporate law” at all; they may be found in a civil code⁴¹ or even a constitution.⁴² Nonetheless, much of the debate surrounding corporate governance and the operation of capital markets has revolved around “public legal rules,” i.e. legislation and, to a much lesser extent, judicial pronounce-

38. These “interaction effects impede putting our finger on one or two key features as indicative of whether technical corporate law is overall good or bad.” MARK J. ROE, CORPORATE LAW’S LIMITS 32 (Colum. Law School, Ctr. for Law and Econ. Studies, Working Paper No. 186, Jan. 16, 2002), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=260582 (last visited May 20, 2005).

39. See Katharina Pistor & Chenggang Xu, *Incomplete Law*, 35 N.Y.U. J. INT’L L. & POL. 931 (2003).

40. See discussion of cumulative voting, *infra* Section VI(g).

41. For example, civil codes will often contain a title on legal persons in the first book on persons. See *infra* text accompanying note 144 discussing cumulative voting and the Illinois constitution.

42. *Id.*

ments.⁴³ Often, where a transplanted legal rule has been disappointingly ineffective, greater judicial action, or enforcement, has been called for.⁴⁴

Unfortunately, this futile seesawing between demands for better legislation and greater judicial enforcement ignores the inherent complexity and dynamism of legal systems. As normative forces, even indigenous legislation and judicial enforcement demonstrate different levels of effectiveness depending on the particular legal system in which they are operating. Add transplanted legal concepts to the equation, and the possible outcomes become much more uncertain.

VI. PRIVATE LEGAL RULES AND LEGAL SENSIBILITIES

The debate over the role of legal rules in capital market development and corporate governance systems has focused on the public face of law, *ex ante* legislation and its *ex post* enforcement through the judicial process. Largely overlooked in this debate, however, has been the role of private legal rules (*ex ante* and *ex post*) and legal sensibilities. Private legal rules are established by contract (*ex ante*) and implemented and enforced (*ex post*) by means of various dispute resolution mechanisms, including arbitration, market discipline, “reputational hostage-taking,”⁴⁵ and other subtle, situational factors. Professor Frank

43. It is no coincidence that reliance on legislation and the judiciary are hallmarks of the U.S. legal system, in particular. *See infra* Section VI(g).

44. The following statement, with respect to Korean derivative law suits (an ill-advised transplant for a number of legal and cultural reasons) is typical: “The small number of derivative lawsuits brought by minority shareholders in Korea reflects the shortcomings in enforcement practices. Between 1998 and 2002 a total of 13 suits were filed by minority shareholders.” Institute of International Finance, Inc., IIF Equity Advisory Group, *Corporate Governance in Korea An Investor Perspective Task Force Report*, July 2003, at 4, available at http://www.iif.com/data/public/KoreaTaskForceReport_Final.pdf (last visited May 20, 2005).

45. As an example of the interplay of public and private rules, Professor Frank Partnoy of the University of San Diego recently presented a paper at the Brookings Institution looking at the regulation of the derivatives markets in the United States from this perspective. *See* Frank Partnoy, *ISDA, NASD, CFMA, and SDNY: The Four Horsemen of Derivatives Regulation?*, in BROOKINGS-WHARTON: PAPERS ON FINANCIAL SERVICES 2–3 (Robert E. Litan & Richard Herring eds., 2002). The derivatives markets in the United States are regulated by a combination of private and public legal rules which operate *ex ante* and *ex post*, and are presented schematically in Diagram A:

Partnoy looked at the operation of *ex ante* and *ex post* public and private rules recently in the context of the U.S. derivatives markets and concluded that the “recent trend to privatize legal rules applicable to derivatives is likely to continue.”⁴⁶

The characterization of legal rules as public or private, however, does not capture the dynamism and complexity of legal rules. Private and public legal rules interact, but also ebb and flow over time. Rather than Partnoy’s static four-cornered box, it is more useful to consider a continuum or spectrum along

Diagram A: Derivatives Regulation Framework

	Private	Public
Ex Ante	Contract (ISDA)	Congress (CFMA)
Ex Post	Arbitration (NASD)	Courts (SDNY)

46. *Id.* at 36.

First are private *ex ante* legal rules developed primarily by the International Swaps and Derivatives Association, Inc. (ISDA) for OTC derivatives (and by various exchanges and self-regulatory organizations for exchange-traded derivatives). The recent trend has been toward increased privatization of derivatives regulation, with trading volumes shifting from exchanges to OTC transactions, and this trend is likely to continue...Second are private *ex post* legal rules applied by arbitrators in disputes, particularly those of the National Association of Securities Dealers (NASD)...Arbitration has numerous drawbacks, especially uncertainty, and likely will not predominate in future adjudication of derivatives disputes....Third are public *ex ante* legal rules, including securities, commodities, and banking law and regulation, but also including derivatives-specific rules. Historically, public regulation in these areas has not achieved its goals; instead public legal rules too often have generated perverse incentives related to regulatory arbitrage, regulatory licenses, and regulatory competition....Fourth are public *ex post* legal rules, including rulings by courts adjudicating derivatives disputes. Thus far, judges have shied from deciding important issues in derivatives disputes, and end-users of derivatives increasingly avoid litigation—even when losses are large—because of the high costs of discovery and motion practice.

Id. at 2–3.

which normative forces move and manifest themselves in different forms, sometimes at different times, sometimes contemporaneously. Along the continuum, in order of informality, are legal sensibilities at one end, moving through standards of behavior or conduct, private legal rules, various intermediate or hybrid forms of public/private rules,⁴⁷ through to formal legislation and judicial action on the other end. A variation on Partnoy's square would be:

Corporate Governance Rules
A Continuum

	<u>Legal Sensibilities</u>	<u>Standards of Behavior</u>	<u>Private Rules</u>	<u>Quasi-Private/Public Rules</u>	<u>Public Rules</u>
Ex Ante	• moral obligation	• voluntary codes	• contract	• stock exchange listing rules	• legislation
Ex Post	• moral opprobrium	• reputational consequences	• arbitration	• specialized arbitration	• judicial action
Less formal ←-----→ More formal					

In emerging, transitional, and developing economies, the corporate governance debate has spawned a more varied range of responses than may at first be apparent. International standards are not necessarily producing cookie-cutter reforms operating across the board in a synchronized and predictable fashion. Credit this to the ingenuity of legal practitioners of all ilks, especially in Latin America, and the inexorable process of indigenization of legal transplants.⁴⁸

47. Intermediate or hybrid forms of rules are the product of the interaction of various kinds of normative forces.

48. For a more detailed discussion of the Latin American initiatives, see Cally Jordan & Mike Lubrano, *How Effective Are Capital Markets in Exerting Governance on Corporations?*, in FINANCIAL SECTOR GOVERNANCE: THE ROLES OF THE PUBLIC AND PRIVATE SECTORS 327 (Robert E. Litan et al. eds., 2002).

A. Private Legal Rules: Powerful and Pervasive

Private legal rules are powerful and pervasive. Contract is at the heart of any market and capital markets are no exception. From the central contract of purchase and sale radiates an extensive network of complex contractual relations which make the market function. The Euromarket (originally the Eurobond market) is a highly successful capital market, which until recently has been governed virtually exclusively by various forms of private legal rules.⁴⁹ It has proven remarkably resistant to the intrusion of legislation, although it may finally have been caught in the regulatory net of the European Union.⁵⁰

On the process of indigenization of legal transplants, see Legrand, *supra* note 20, at 111.

49. See Frank Graaf, *Euromarket Finance: Issues of Euromarket Securities and Syndicated Eurocurrency Loans*, in *EUROMARKET FINANCE* 13–14 (1991).

50. One controversial aspect of the recently enacted EU Prospectus Directive is that it will impose greater restraints on issuances of securities in the Euromarket, which has traditionally been viewed as a “professionals only” market. See Council Directive 2003/71/EC, 2003 O.J. (L 345) 64, available at http://europa.eu.int/eur-lex/pri/en/oj/dat/2003/l_345/l_34520031231en00640089.pdf. “Euro-securities” have benefited from significant exemptions from regulation. The definition of “euro-securities” appeared in the 1989 EU Prospectus Directive:

‘Euro-securities’ shall mean transferable securities which:

- are to be underwritten and distributed by a syndicate, at least two of the members of which have their registered offices in different States, and
- are offered on a significant scale in one or more States other than that of the issuer’s registered office, and
- may be subscribed for or initially acquired only through a credit institution or other financial institution.

Council Directive 89/298/EEC, art. 3(f), 1989 O.J. (L 124) 8–15, available at <http://europa.eu.int/eur-lex/lex/LexUriServ/LexUriServ.do?uri=CELEX:31989L0298:EN:HTML>. The definition carried over in 1993 to the EU Investment Services Directive. Council Directive 93/22/EEC, 1993 O.J. (L 141) 27–46, available at <http://europa.eu.int/eur-lex/lex/LexUriServ/LexUriServ.do?uri=CELEX:31993L0022:EN:HTML> (now repealed by Council Directive 2004/39/EC, 2004 O.J. (L 126) 1).

As explained in GOWER’S PRINCIPLES OF MODERN COMPANY LAW:

All one need add is that the value of the business conducted on the [Euromarket] is enormous (far greater than that on any stock exchange); that when trading starts it will normally be in lots exceeding \$(US) 25,000; and that there are efficiently organized clearing sys-

At their origin, stock exchange listing rules, for example, are private legal rules, adhered to by contractual arrangement. This, in fact, is often the main source of their weakness as a regulatory mechanism in case of market abuse; relying on contract, exchanges ordinarily may go no further than delisting (resiliation of the contract to list) or resort to public censure (i.e.

tems....[T]he attitude of the United Kingdom (and of other countries) has been studiously to exclude [euro-securities] from regulation—an attitude acquiesced in by the European Commission. The arguments of the [Association of International Bond Dealers] and its members which have led to this ‘hands-off’ treatment are (i) that the market is used by ‘professionals only’ and (ii) that if attempts were made to regulate it more strictly the centre of its operations would move from London to somewhere else in the European time zone (say Zurich [Switzerland is not a member of the EU]), thus depriving the United Kingdom (and, perhaps, the Community) of one of its more valuable financial assets.

GOWER’S PRINCIPLES OF MODERN COMPANY LAW 402 (6th ed. 1997). The Euro-market or, as Hal Scott calls it, the “international unregulated private placement market,” has “adopted what market participants call ‘international’ documentation or rules, *developed by issuers, underwriters, and institutional investors.*” Hal S. Scott, *Internationalization of Primary Public Securities Markets*, 63 LAW & CONTEMP. PROBS. 71, 73 (2000) (emphasis added). Even in the face of greater regulation to be imposed by the 2003 EU Prospectus Directive, the market is responding in an attempt to preserve enclaves free from regulation:

From 1 July 05 the EU introduces a new regime which will make the disclosure and continuing obligations even for “professionals only” offerings, more onerous. In justifiable fear of a flight of business (I have been advising the Swiss Stock Exchange on the implementation of its new Eurobond listing regime) both London and [Luxembourg] are planning to establish new ‘unregulated’ listing regimes outside the scope of the new EU regulated regime. Interesting times in the Eurobond market!

Correspondence with Nick Eastwell, Partner, Linklaters (Feb. 21, 2005) (on file with author). Other “unregulated” markets are seeking to capitalize on the greater regulation of the traditional Euro-market. “Switzerland is also proposing to continue the old EU Eurobond regime by permitting listings in currencies other than Swiss Francs. The Channel Islands are proposing a similar market as is Singapore....All in all, it is not clear which debt market non-EU issuers will choose.” Correspondence with Peter Noble, member of the International Primary Market Association (IPMA) Working Group dealing with the EU Prospectus Directive and Partner, Ogilvy Renault (Feb. 21, 2005).

invoke the power of legal sensibilities).⁵¹ Over time, listing rules have been transformed in many cases by an overlay of public legal rules, so called “statutory backing” or subjugation to supervisory oversight, thus evolving into a form of semi- or quasi- public legal rule.

Contract, too, is at the heart of the corporate entity. Modern U.S. legal theory looks at the corporation as a “nexus of contracts.”⁵² In the interest of efficiency, corporate law (public legal rules) acts primarily to establish a standard form of “contract,” or default rules, for the internal organization of corporations.⁵³ The incorporators themselves, and subsequent shareholders, may vary these rules (and often do) virtually in their entirety by contract in the private or close corporation. Close corporations, private companies, are the predominant corporate form throughout the world, in some cases comprising 99% of incorpo-

51. See also Jordan & Lubrano, *supra* note 48 (discussing mandatory arbitration of shareholder disputes required of companies listing on Level 2 of the Novo Mercado, the Sao Paulo Exchange’s recently created “corporate governance board”).

52.

Law and economic theorists conceptualize the corporation in terms of contract law. A corporation can be viewed as a nexus of contracts through which various claimants such as creditors, workers, shareholders, and consumers enter into agreements. Private contracts are an efficient means to lower transaction costs in the agency relationship between the shareholders and managers. One can view the articles of incorporation and the bylaws as a contract between the shareholders and the managers setting out the rules governing their relationship. This private ordering through contracts allows the parties to provide rules to maximize value and minimize costs. Under this view, corporate law should provide the basic terms of these contracts (that is, default rules), but the shareholders and the managers should be allowed to change the terms, thus providing an optimal and mutually agreeable system.

ARTHUR R. PINTO & DOUGLAS M. BRANSON, UNDERSTANDING CORPORATE LAW 115–16 (1999).

53. In the United Kingdom, and many other Commonwealth jurisdictions, contract is still the basis of the formation of a company; the memorandum of association, the contract among the founding members, is registered in order to benefit from limited liability and legal personality. The contractual basis of the company had long been a theoretical impediment to the creation of one shareholder companies; it takes two to tango and two (at least in the common law, if not in the civil law) to contract. See UNIF. P’SHIP ACT § 6 (1914).

rations or registrations.⁵⁴ They are primarily creatures of contract and rely on contract, in the form of by-laws and shareholder agreements in particular, for their operation.

The primacy of contract in the market also underpins the dominant regulatory approach to the capital markets (and, secondarily, corporate governance), which is the U.S. disclosure-based regime. The nature of these public, disclosure-based rules is determined by their deference to the private legal rules of the market: essentially, buyer beware. What are the characteristics of contract? It is consensual, flexible, and, optimally, both self-enforcing and *independent of political process*. Private legal rules can, thus, circumvent the impediments to financial market development thrown up by the “political structure within a country.”⁵⁵

Each characteristic of contract can vary in degree, but its consensual nature is arguably its defining characteristic. Standard form contracts, rife in the securities industry, are largely inflexible, either for the sake of predictability and convenience or due to the superior bargaining power of industry participants, but they are still consensual. By-laws or industry association rules are a variation on standard form contracts.⁵⁶ In becoming a member of the organization or company, the member agrees to abide by the rules. Contract thus forms the basis of so-called self-regulatory organizations prevalent in the Anglo-American securities industry.

54. For example, at the time of the author's work on proposals for modernized companies legislation in Hong Kong, nearly 99% of companies registered in Hong Kong were private companies. “Of the 483,181 companies registered in Hong Kong as of 31 December 1997, 477,140 are private companies.” CALLY JORDAN, REVIEW OF THE HONG KONG COMPANIES ORDINANCE – CONSULTANCY REPORT 30 (1997). For information on the German equivalent of the close corporation or private company, see also SCHLESINGER ET AL., *supra* note 36, at 923 (“In Germany and in most countries that have followed its model, the limited liability company (GmbH) is enormously popular. By 1991, Germany had about 465,660 limited liability companies (GmbHs) as opposed to only 2,800 stock corporations (AGs)...”).

55. See generally RAJAN & ZINGALES, *supra* note 8.

56. The derivation of the word “by-law” is interesting in this respect. It is believed to come from the Old Norse language “byrlaw”: a local custom or law of a manor or district whereby disputes over boundaries and trespass were settled *without recourse to the public courts of law* or a regulation or ordinance agreed to *by consent* in baronial court. NEW SHORTER OXFORD ENGLISH DICTIONARY 310–11 (2d ed. 1993).

There are, however, several drawbacks to private legal rules. In the absence of agreement, there is impasse. Then there must be recourse to public law, which is rigid, prescriptive, circumscribed, and, in the case of legislation, at least, subject to the vagaries of political process.⁵⁷ Nevertheless, in certain circumstances and certain legal systems, public legal rules are more effective than private legal rules.

B. Private Legal Rules are Important

The debate over regulation of capital markets and governance of corporations since the early 1990s has primarily been an Anglo-American one.⁵⁸ Not surprisingly, many governance mechanisms that have recently proliferated find their origins in Anglo-American law and practice.⁵⁹ Although the debate surged into public prominence ten to fifteen years ago (for a variety of reasons),⁶⁰ it has been the daily bread of lawyers and accountants for a hundred and fifty years or more.

Over time, fairly standardized private legal rules developed in the context of negotiated partnership contracts, shareholder agreements, and private company by-laws. These private legal

57. The judiciary and judicial action may not be immune to the vagaries of political process either. Despite the admirable independence of the U.S. judiciary, the appointment process is highly politicized.

58. The debate has, in more recent years, been picked up with vigor in Asia and continental Europe, where the issues and concepts are being recast in a different corporate and legal context. See, for example, the efforts of the European Corporate Governance Institute (ECGI), at <http://www.ecgi.org>, and the Asian Corporate Governance Association (ACGA), at <http://www.acgasia.org>.

59. For example, voluntary codes, cumulative voting and class actions. See discussion *infra* Sections VI(e), (f), (g).

60. Some of the reasons include U.K. privatizations of the 1980s creating a vocal shareholder base wielding political power, the tabloid scandals of the Maxwell affair, outrageous U.S. executive compensation, the glamorization of Wall Street, etc. The London Stock Exchange and the UK Society of Accountants worked together to look at the issues, primarily involving financial accountability of the board of directors. Their report, the "Cadbury Report," proved extraordinarily influential in shaping the ensuing world-wide corporate governance debates. See Committee on the Financial Aspects of Corporate Governance, *Report of the Committee on the Financial Aspects of Corporate Governance* (1992), available at <http://www.blindtiger.co.uk/IIA/uploads/2c9103-ea9f7e9fbe--7e3a/Cadbury.pdf> (last visited May 20, 2005) [hereinafter Cadbury Report].

rules were designed to balance the ongoing economic interests of participants and, if necessary, provide egress from the enterprise and dispute resolution without recourse to the courts. In commercial matters, the courts would be a last resort.⁶¹

In the United States, possibly for reasons discussed below, some of these contractual governance mechanisms metamorphosed into various kinds of public legal rules, particularly in the case of private or close corporations. Among these rules were tag-along rights in case of change of control, puts and calls to provide an exit, valuation mechanisms to determine economic interests, disinterested voting techniques to deal with conflicts of interest, buy-out or appraisal mechanisms triggered by certain events, and arbitration and non-judicial dispute resolution.⁶² Some of these contractual governance mechanisms were adapted and crossed over to the realm of public corporations. Their outlines, for example, are readily discernible in the Williams Act,⁶³ which is the source of U.S. tender offer rules.

These contractual governance mechanisms are not exclusive to the United States. For example, these private legal rules figure prominently, in different forms, in recent Latin American initiatives, such as the so-called corporate governance board of the Sao Paulo Stock Exchange.⁶⁴ Private legal rules, contract, are important in and of themselves but are also important in two other respects. First, private legal rules generate market-tested solutions that can, over time, provide the basis for public legal rules of greater general applicability, as has been the experience in the United States. Secondly, as Professor Partnoy observes, over time, public legal rules may migrate back to the private sector in search of a more effective form of expression.

61. Litigation can be a devastatingly slow and expensive process that can destroy a business or commercial relationship.

62. These mechanisms, for the most part, are now statutory in nature in state corporate law following the MBCA. *See, e.g.*, DEL. CODE ANN. tit. 8 §§ 214 (cumulative voting), 262 (appraisal rights) (2001).

63. Williams Act of 1968, 15 U.S.C. § 78(d)–(f) (2000).

64. For a detailed discussion, see Jordan & Lubrano, *supra* note 48.

C. Legal Traditions: Different Balances in Terms of the Effectiveness of Private and Public Legal Rules

Even within the common law tradition, there are significant differences between English (now Commonwealth) and U.S. traditions. The U.S. common law tradition branched off over two hundred years ago at the time of the American Revolution⁶⁵ and, in some interesting respects, has greater affinities with the continental European tradition than with the English common law: “Law in the United States is generally seen as adhering to a common law ‘family,’ but today this is far from obvious.”⁶⁶ This fundamental misunderstanding of the U.S. legal system has distorted an otherwise thought-provoking analysis of the relationship of legal origins and development of financial systems.⁶⁷ “The particular genius of US law...has been its constructive combination of elements of *both* civil and common law.”⁶⁸

The U.S. and English traditions do share a common characteristic, although it may find a different manner of expression in each system: heavy reliance on *ex post* public legal rules through enforcement in the courts. As every common law student learns in the first week of law school, there is no right without a [judicial] remedy.⁶⁹ This remedial legacy endows pro-

65. See CONSTITUTIONAL LAW 2–5 (Geoffrey R. Stone et al. ed., 1996).

66. H. PATRICK GLENN, LEGAL TRADITIONS OF THE WORLD 248, 251 (2d ed. 2004).

In many respects US law represents a deliberate rejection of common law principles, with preference being given to more affirmative ideas clearly derived from civil law. These were not somehow reinvented in the United States but taken over directly from civilian sources in a massive process of change in adherence to legal information in the nineteenth century.

Id. at 248.

67. See *supra* note 2.

68. GLENN, *supra* note 66, at 251 (emphasis added) (“Grant Gilmore observed that U.S. lawyers were ‘convinced eighteenth-century rationalists,’ in the French tradition, while at the same time, U.S. law would represent ‘the arrogation of unlimited power by the judges.’”).

69. *Id.* at 228

(“Where there is no remedy there is no wrong [quoting Maitland].’ So the common law came to be composed of a series of procedural routes (usually referred to as remedies) to get before a jury and state one’s case....In contemporary language the common law was there-

cedural elements of the law and the judicial system in common law traditions with great importance. This centrality of procedural law and the judicial system is not necessarily recognized or shared in other legal traditions.⁷⁰

In the English common law, the importance of judicial action, case law, and *ex post* public legal rules continue to dominate statutory, or written, law, the *ex ante* public legal rules. The English common law system demonstrates to this day a surprising aversion to law as legislation, to *ex ante* public legal rules.⁷¹

fore a law of procedure; whatever substantive law existed was hidden by it, 'secreted' in its 'interstices,' in the language of Maine.").

70. *Id.* ("The procedure was, and is, unique in the world and may be today the most distinctive feature of the common law.").

71. In the company law area, for example, both the U.K. and Hong Kong (while still British territory) demonstrated an active resistance to creating statutory formulations of directors' duties and the derivative action, preferring to rely on a tangled mass of case law dating back to the 1840s. *See* JORDAN *supra* note 54, at 122

("Until recently, it seemed that the United Kingdom was moving in the direction of statutory standards [of directors' duties]. According to the U.K. Department of Trade and Industry working group on Directors Duties, there was 'support emerging for the codification of directors' duties similar to the approach adopted in other Commonwealth countries. The DTI favours a reduced Part X coupled with a 'statement' of directors' duties' (Great Britain, Department of Trade and Industry, *DTI's Programme for the Reform of Company Law – Progress Report* (London: Department of Trade and Industry, 11 June 1996)). A subsequent Progress Report (October 1996) indicates, however, that such an initiative has been again derailed. The U.K. Jenkins Committee, in 1962, considered that a general statement of the basic principles underlying the fiduciary relationship of directors towards their companies would be useful to directors and others concerned with company management. The Second Report in Hong Kong in 1973 agreed and so recommended. The SCCLR has also so recommended. Efforts were made to develop a statutory formulation of directors' fiduciary duties in Hong Kong, the most recent being the Companies (Amendment) Bill 1991. The Bill was not enacted due to objections expressed in particular by the Law Society. The Law Society was of the view (among other things) that any attempt to draft a statutory formulation of directors' fiduciary duties would be incomplete and that it was better to continue with the present system where a director should consult his professional advisors whenever a question involving his fiduciary duties to the company arose. When the Bill was withdrawn, the Government encouraged the private sector to draft guidelines to better inform directors of their duties. In 1995 the Hong Kong branch of the Institute of Directors published

Large and complex swathes of English law are not found in written legislation. Trust law, from which is derived the concept of “fiduciary duties” so important to corporate governance in the Anglo-American system, is a prime example; its fundamental principles remain judge-made, with *ex post* public legal rules as their source.

In some instances, there are not even judge-made rules to look to in England. For example, England has no written constitution; rather, in its place are “parliamentary conventions” which developed over long periods of time and operate on a consensual basis.⁷² These parliamentary conventions are imbued with “legal sensibilities,” but not less effective for that reason. Fiduciary duty, too, draws much of its residual power from the influences of legal sensibilities, leftovers from an earlier time when they enjoyed greater formal normative force.⁷³ The con-

Guidelines for Directors which was, in part, intended to be responsive to the need for some private sector guidelines. Of special interest in this area is the SEHK Listing Rules’ formulation of directors’ duties, which demonstrates its affinity to modern statutory formulations.”).

A form of statutory derivative action was also resisted in Hong Kong (although there were other considerations at work as well). In recommending the creation of such a statutory provision, the *Consultancy Report* stated that

On balance, in the interests of certainty, simplicity and conformity with other Commonwealth jurisdictions, a statutory derivative action is desirable. The prophylactic effect of such an action is salutary. It also appears to be the only way in which to lay to rest the unruly ghost of *Foss v. Harbottle* [1843], which it must be remembered, was decided before the advent of even 19th century statutory company law. The U.K. case law on the rule in *Foss v. Harbottle* has taken some unfortunate turns in recent years creating unnecessary hurdles for shareholders in international disputes being played out in the United Kingdom. Characterised as a procedural rule under principles of U.K. private international law, the intricacies of the rule have been superimposed on shareholders of companies incorporated in other jurisdictions which provide more modern remedies. There is some evidence that this line of U.K. case law would also be applied in Hong Kong.

Id. at 152.

72. What a way to run a country some might say. For a discussion of parliamentary conventions, see Resolution to Amend the Constitution, [1981] S.C.R. 753 (Can.) at 772.

73. The fiduciary duty has its origins in medieval ecclesiastic courts in England; at the time, canon, or ecclesiastical, law and the ecclesiastic courts were a very real and present source of normative propositions. See Mary Szto,

cept of fiduciary duty, so fundamental to Anglo-American corporate governance, does not transplant well, if at all, because of its dependence on specific court structures and cultural and historic "legal sensibilities."⁷⁴

The U.S. legal tradition shows no such reticence in the use of legislation, *ex ante* public legal rules. In this respect, proclivities of the U.S. legal tradition are more in line with those of continental Europe.⁷⁵ It is no accident that the United States has a Uniform Commercial Code,⁷⁶ Bankruptcy Code, and any number of other state and federal codes.⁷⁷ The formative decades of the early Republic were very much influenced by French legal thought and institutions.⁷⁸

As for continental European legal traditions, which serve as the basis for the legal systems of much of the world outside the

Limited Liability Company Morality: Fiduciary Duties in Historical Context, 23 QUINNIPIAC L. REV. 61, 61 (2004).

74. The Chinese Companies Law of 1993 crudely 'codified' certain aspects of the fiduciary duty: managers are prohibited from accepting bribes and from depositing company funds in their personal bank accounts, for example. *See* Company Law of the People's Republic of China, arts. 211, 214 (Adopted at the Fifth Meeting of the Standing Committee of the Eighth National People's Congress, 1993), available at <http://www.cclaw.net/download/companylaw.asp> (last visited May 20, 2005). *See also id.* art. 59, para. 2 ("A directors [sic], supervisor, or the general manager may not abuse their authorities by accepting bribes or generating other illegal income, and may not convert company property."); art. 60, para. 2. ("A director or the general manager may not deposit company assets into an account in his own name or in any other individual's name."); art. 61 ("A director or the general manager may not engage in the same business as the company in which he serves as a director or the general manager either for his own account or for any other person's account, or engage in any activity detrimental to company interests. If a director or the general manager engages in any of the above mentioned business or activity, any income so derived shall be turned over to the company."). Note that the latter part of art. 61 is a classic statement of the fiduciary law remedy for breach of the prohibition on acting in a conflict of interest.

75. *See generally* GLENN, *supra* note 66 (discussing global legal traditions).

76. It is a sometimes overlooked fact that the Uniform Commercial Code in the United States was inspired directly by the German Commercial Code. "The principal architect of the Code, the late Professor Karl N. Llewellyn, had spent considerable time in Germany, and there can be no doubt that some of the Code's important features were inspired by his study of German law." SCHLESINGER ET AL., *supra* note 36, at 20–21.

77. For more on the history of the Bankruptcy Code, see DAVID A. SKEEL, *DEBT'S DOMINION: A HISTORY OF BANKRUPTCY LAW IN AMERICA* (2001).

78. *See generally* GLENN, *supra* note 66.

Commonwealth, their most important defining characteristic may be the importance of “written law,” *ex ante* public legal rules, particularly as embodied in the great nineteenth-century civil and commercial codes. These countries are *pays du droit écrit*, which translates as “countries of written law.”⁷⁹ If in the common law world there is no right (or, more correctly, no wrong) without a remedy, then in the continental European tradition there is no right without a written law. In the continental European context, judicial pronouncements are of relatively (and the stress here is on relatively) little importance.⁸⁰

A related characteristic of continental European law, virtually unknown in the United Kingdom, is the hierarchy of laws: in decreasing order, constitution, code, statute, decree, and regulation. As in a game of cards, a civil or commercial code provision will always trump a statutory law, which is considered “specialized” or subordinate legislation, subject to the overarching principles of the code. Any subsequent legal transplant which takes the form of statutory enactment will be subservient to even pre-existing civil code provisions which may date back a century or more.

79. “Pays du droit écrit” being a term identifying a certain geographic area (originally, that region of France south of the Loire) and a legal tradition (deriving from a continuation of Roman law somewhat modified by Germanic custom).

At the time of the withdrawal of the Romans [from the south of what is now modern France], Roman provincials (who in accordance with the personality principle were governed by Roman law) by far outnumbered Germanic settlers. The result was that Roman law...continued to be the law of the land, modified to some extent by Germanic custom.

HAHLO & KAHN, *supra* note 21, at 509.

80. As with all such generalizations, the interest lies in the exceptions. However, see GLENN, *supra* note 66, at 145–46

(“There are problems...with the notion of judicial independence in the civilian tradition. Given the *ancien régime*, nobody wants a ‘*gouvernement des juges*’, so the primacy of the codes, and legislation in general, is reinforced by ongoing skepticism towards, and even surveillance of (through control of the career structure) the civilian judiciary.”).

D. Effective Rules: Form and Substance

The preceding discussion has not been idle dalliance in the fascinating, but irrelevant, backwaters of comparative law. The effectiveness of a governance mechanism in a particular legal system will relate to the form it takes. To the extent that the LLSV literature recognized that legal families do matter, it provided a valuable insight.⁸¹ Pistor, too, is correct in her observation that the manner in which a legal concept is introduced or transplanted matters.⁸² Equally, the form which a rule takes matters.⁸³ Some of the otherwise “inexplicable” consequences, such as the failures of the waves of capital markets and corporate governance initiatives, can be traced to a failure to recognize the importance of these observations.

Some of the most popular governance mechanisms, such as voluntary codes, cumulative voting and class actions, may not survive transplantation to another legal system because they are an inappropriate form of rule. Others may be fundamentally incompatible with the underlying legal structure. The concept of fiduciary duty, for example, is notable for its absence in other legal systems despite its importance as a mechanism for corporate governance in the Anglo-American tradition. Fiduciary duty is a concept too complex, exotic, and imbued with legal sensibilities to take root easily elsewhere.⁸⁴

E. Voluntary Codes of Corporate Governance

Voluntary codes of corporate governance have probably been the most popular governance mechanism of the 1990s and have proliferated, irrespective of legal tradition, corporate ownership patterns or level of development of the capital market. These codes trace their immediate origins to the 1992 Cadbury Report in the United Kingdom.⁸⁵ None would question the extraordi-

81. As noted above, the LLSV “legal origins” literature fundamentally misunderstood the nature of these legal families.

82. See BERKOWITZ ET AL., *supra* note 9.

83. See Jordan & Lubrano, *supra* note 48.

84. Again, the exceptions to this generalization are of interest. See *supra* note 74 and accompanying text for the examples of codification of fiduciary duties in Chinese companies law and the discussion *infra* note 94 and accompanying text of the introduction of trust law principles in the Quebec and Mexican civil codes.

85. See Cadbury Report, *supra* note 60.

nary influence of the Cadbury Report in spawning a world-wide interest in corporate governance and the mechanisms to promote it. In the United Kingdom, its country of origin, the current manifestation of the Cadbury Report and its subsequent recommendations is the Combined Code.⁸⁶ The most significant feature of the Combined Code is that, contrary to the implication in its title, it is not written law but, rather, is a “voluntary” code. In the continental European tradition, a “voluntary” code is an oxymoron. A “code,” in the European tradition, is written law of high normative force.⁸⁷

So, what is the Combined Code, if not legislation? It is a code in another sense in that it is “a set of rules on any subject, *esp.*, the prevalent morality of a society or class; an individual’s standard of moral behaviour.”⁸⁸ The Combined Code is a code of conduct and ethics informed by legal sensibilities. The Combined Code is not even a form of private legal rule; rather, it is no more than a set of suggested guidelines. Absent is the binding force of contract that a set of industry association rules might possess by virtue of contractual membership obligations.

The questions then become, first, how effective the Combined Code can be and, second, why this choice of form is appropriate? To begin, the Combined Code can be reasonably effective in the United Kingdom, all other things being equal.⁸⁹ Remember that the United Kingdom relies on unwritten parliamentary conventions in lieu of a written constitution and has a respectable, if now frayed, tradition of the use of moral suasion as a regulatory technique.⁹⁰ The Combined Code is not the only instance of a “voluntary” code either in the United Kingdom; the “City Code”

86. Committee on Corporate Governance, *Combined Code, Principles of Good Governance and Code of Best Practice* (1998) (Eng.), available at http://www.fsa.gov.uk/pubs/ukla/lr_comcode3.pdf#search='Committee%20on%20Corporate%20Governance,%20%20%20The%20Combined%20Code%20London,%201998' (last visited May 20, 2005).

87. The Shorter Oxford English Dictionary defines “code” as: “A written body of laws so arranged as to avoid inconsistency and overlap.” SHORTER OXFORD ENGLISH DICTIONARY 441 (5th ed. 2002).

88. *Id.*

89. There have been criticisms of its effectiveness, but all things are relative.

90. Tea with the Governor of the Bank of England, for example, prior to recent regulatory reforms.

or Takeover Code⁹¹ was not written legislation, it too was a “voluntary” code. The legal sensibilities in this particular area have been vital enough in the United Kingdom, at least until the very recent past,⁹² to support the effectiveness of voluntary codes as a normative proposition.

As to the second question concerning choice of form, the answer is more elusive. It is not as though the United Kingdom emulates existing models when embracing a voluntary code. Several of the substantive recommendations of the Cadbury Report, such as the use of audit, remuneration and nomination committees are taken directly from the listing rules of the New York Stock Exchange.⁹³ These rules we would characterize as semi- or quasi- public rules because their binding nature derives from contract but they are also subject to regulatory oversight of Securities and Exchange Commission, a public agency. The use of audit committees by New York Stock Exchange-listed companies was not a pious wish; it was a mandatory requirement. To trace the origins of the audit committee recommendation even a little further back, it is found in legislative

91. Panel on Takeovers and Mergers, City Code on Takeovers and Mergers and the Rules Governing Substantial Acquisitions of Shares (2002) (Eng.), available at <http://www.thetakeoverpanel.org.uk/> (last visited Mar. 27, 2005).

92. The UK Financial Services Authority (FSA) was created under the Financial Services and Markets Act, 2000, c. 8 (Eng.) and assumed its powers and responsibilities on December 1, 2001. It is an independent non-governmental regulator, created by statute and exercising statutory powers. The FSA is a “unitary” regulator, directly responsible for banking, insurance and the investment business. In its own words, the “FSA takes a radically different approach to regulation from that of its predecessors.” FINANCIAL SERVICES AUTHORITY, AN INTRODUCTION TO THE FINANCIAL SERVICES AUTHORITY 7 (2001), available at http://www.fsa.gov.uk/pubs/other/fsa_intro.pdf (last visited May 20, 2005). The internationalization of capital markets and the consequent pressures exerted from both sides of the Atlantic are likely a prime contributor to the decision by the UK authorities to radically change their approach to financial services regulation.

93. For example, the “audit committee” was introduced by the NYSE in 1978. See Lawrence A. Cunningham, *The Appeal and Limits of Internal Controls to Fight Fraud, Terrorism, and Other Ills*, 29 J. CORP. L. 267, 336 (2004). For a description of the audit committee’s duties, see Constitution of the New York Stock Exchange, art. IV, § 12(3), available at http://rules.nyse.com/nysetools/Exchangeviewer.asp?SelectedNode=chp_1_1_4&manual=/nyse/constitution/constitution/.

form, as an *ex ante* public legal rule, even earlier.⁹⁴ So, there is one rule with three different, related, manifestations, which begs the question of their relative effectiveness.

The question remains, however, of the efficacy and wisdom of a voluntary code. A number of virtues can be cited, among them flexibility, responsiveness, sensitivity to industry specific concerns and considerations, the usual virtues of private legal rules. Underlying these rationales, though, the peculiar British aversion to written legislation, *ex ante* public legal rules, also shines through. There may also be even subtler forces at work in influencing the form these rules have taken in the United Kingdom.

For example, the Cadbury Report in 1992 focused on the board of directors, its composition and responsibilities.⁹⁵ The directors of English companies, like their U.S. counterparts, are subject to fiduciary duties derived from very medieval concepts of trust law. Early nineteenth-century English (and U.S.)⁹⁶ business enterprises were often organized as trust vehicles with the director roles being assumed by “real” trustees. Trustees are subject to strict fiduciary duties of impartiality and accountability which, due to a quirk of medieval history, were enforced by a separate *ecclesiastic* court system known as Courts of Equity.⁹⁷ Fiduciary duties are triggered whenever there is a separation of ownership from management of property⁹⁸ and, thus, easily carried over to the obligations of company and cor-

94. In 1975, the new Canada Business Corporations Act had introduced a provision making audit committees mandatory for federal publicly traded companies. Canada Business Corporations Act, R.S.C., ch. 44 § 171 (1975). The interesting twist here is that, although inspired in many respects by the U.S. Model Business Corporations Act, the Canadian legislation was also subject to the beneficent influences of the Quebec Civil Code (itself at that time based largely on the French Napoleonic Code), in terms of legislative approach and drafting techniques, and with its continental European bias in favor of written law, *ex ante* public legal rules.

95. See generally Allison Dabbs Garrett, *Themes and Variations: The Convergence of Corporate Governance Practices in Major World Markets*, 32 DENV. J. INT'L L. & POL'Y 147 (2004) (discussing global corporate governance practices).

96. See *Gashwiler v. Willis*, 33 Cal. 11 (1867).

97. See DOUGLAS LAYCOCK, *MODERN AMERICAN REMEDIES: CASES AND MATERIALS* 6–8 (3rd ed. 2002).

98. See *FAMILY PROPERTY LAW: CASES AND MATERIALS ON WILLS, TRUSTS, AND FUTURE INTERESTS* 1299–1364 (Lawrence W. Waggoner et al. eds., 2002).

porate directors. Enforced by the Courts of Equity, fiduciary duties were suffused with moral righteousness and legal sensibilities. A voluntary code for directors' duties (in the Oxford English Dictionary sense of a vehicle establishing "a standard of moral behaviour"),⁹⁹ such as the Combined Code, is very much in keeping with the constructs of this tradition.

The specificity to the United Kingdom of the choice of a voluntary code of corporate governance should be obvious by now. The question then becomes how effective such voluntary codes could be elsewhere. Would they transplant well, even if not imposed through conquest or colonization?¹⁰⁰ Could they be transplanted at all in continental European law systems or the complex hybrid legal systems of Asia? For example, it would be hard to imagine the French (or Americans, for that matter) jettisoning their beloved constitution for a variant of English parliamentary convention.¹⁰¹ Further, why have voluntary codes of corporate governance been so immensely popular?

F. Voluntary Codes and International Capital Markets

Here is where the capital markets may, ironically, be producing a perverse effect on corporate governance initiatives. International capital markets have been so dominated in recent years by Anglo-American law and practices that the spillover into other law and practice, regardless of legal tradition, has

99. SHORTER OXFORD ENGLISH DICTIONARY 441 (5th ed. 2002).

100. See BERKOWITZ ET AL., *supra* note 9.

101. The sorry saga of the recent Russian code of corporate governance demonstrates the muddle which follows an attempt to integrate a voluntary code into a continental European system unable to recognize the concept. See Jordan & Lubrano, *supra* note 48, at 349

("Russia's new code of corporate governance had a more dirigiste provenance than Mexico's....A committee selected by the FCSM [Russian Federal Commission on Securities Markets] was assigned the task of preparing a final code within a year....As initially conceived, the code was to be a (quite lengthy) compendium of existing law, regulation, and FCSM interpretation, as well as 'recommended' practices not necessarily grounded in the existing legal and regulatory framework. An early draft of some of the code's chapters indicated that the document would not likely be very clear about which of its provisions were restatements of existing law, which represented FCSM interpretation of the existing framework, and which were to be regarded as merely hortatory.").

been inevitable, if uneven. Some spillover may be ineffective because the mechanisms introduced are incompatible with or unknown to the underlying legal system, fiduciary duties for example. In other cases, the transplanted legal concepts may contradict civil or commercial code provisions. The newly-introduced elements may then be simply trumped, rendered ineffective, by older civil code (or even constitutional) provisions which are higher in the legal hierarchy.

Other legal mechanisms, voluntary codes possibly among them, may be detrimental to developing better corporate governance. Deliberately introducing an ineffective, but internationally recognized, corporate governance delivery mechanism such as a voluntary code may cause political interests to divert attention from approaches which could be more effective, but also more disruptive to the cozy corporate and political status quo.¹⁰² Such strategies are not restricted to developing economies. The German corporate governance code, a voluntary code introduced in 2002, provides an example. Justice Minister Herta Daubler-Gmelin “argued that while the code contained no sanctions for non-compliance, ‘the capital market will provide very effective sanctions’ for those that chose to ignore it.”¹⁰³ The Financial Times editorial writer was skeptical at the time of introduction of the voluntary code, stating flatly that it would do “little to nudge German corporate governance towards a more investor-friendly model.”¹⁰⁴ This skepticism has been largely vindicated by subsequent events; three years later the voluntary code is considered “a failure” and plans are afoot to replace it with written legislation.¹⁰⁵

102. See RAJAN & ZINGALES, *supra* note 8.

103. Sven Clausen & Hugh Williamson, *Berlin Announces Voluntary Business Code*, FIN. TIMES, Feb. 27, 2002, at 7.

104. *German Takeover*, FIN. TIMES, Feb. 27, 2002, at 12 (“Common rules for corporate takeovers have become a test for Europe’s capacity to reform itself. Thanks to the conservatism of German business and the refusal of the Berlin government to look beyond narrow political interests, is one that Europe is likely to fail. Despite the eye-catching call for greater disclosure of executive pay, Germany’s new voluntary code, published yesterday, does little to nudge German corporate governance towards a more investor-friendly model.”).

105. See Patrick Jenkins & Hugh Williamson, *Executives Under Pressure on Pay*, FIN. TIMES, Jan. 19, 2005, at 16

On the other hand, as ineffective as such a mechanism may be domestically in directly raising standards of corporate governance, it may have a signaling effect in the international markets. To the extent corporations participate in the international capital markets (perhaps only a tiny fraction of a country's corporate universe), other more effective corporate governance mechanisms would be engaged through foreign listing rules, compliance with U.S. securities laws and regulations, *inter alia*. Where there is little interest in international capital markets, however, there may be little interest in triggering the signaling effect of introduction of a domestically inappropriate, but internationally recognized, corporate governance mechanism.¹⁰⁶

G. Cumulative Voting and Class Actions

Like voluntary codes, cumulative voting mechanisms and class actions have also popped up around the world.¹⁰⁷ Early LLSV literature, which identified the presence of both of these

(“A group of 21 Social Democrat members of the German parliament will today table a draft bill to force company executives to disclose details of their remuneration and bring to an end a deep-rooted culture of secrecy in the country's boardrooms. The bill, drafted in consultation with corporate governance expert Theodor Baums, comes in response to what the legislators see as the failure of a three-year-old voluntary code to prompt disclosure.”).

106. Tunisia, for example, with a very “pure” French civil law tradition, has recently introduced new corporate law designed to improve various aspects of governance, but has little interest in a voluntary code of good corporate governance (although there is some greater interest in judicially oriented statutory shareholder remedies). *See, e.g.*, Code des sociétés commerciales, Loi no. 2000-93 du 3 novembre 2000, art. 477. As the head of the Centre des études juridiques et judiciaires explained to the author in an interview in Tunis in February 2001, the concept of a voluntary code of corporate governance is inconsistent with the Tunisian legal tradition which prefers structural adjustments to the corporate law, *ex ante* public legal rules. To the extent there is little interest in participating in international capital markets by Tunisian corporations (non-domestic activity is more likely to be focused on France and Italy), there is little need to send a signal to the international capital markets.

107. *See, e.g.*, Sang-Woo Nam & Il Chong Nam, *Corporate Governance in Asia: Recent Evidence from Indonesia, Republic of Korea, Thailand and Malaysia*, Asian Development Bank Institute (2004), available at <http://www.adbi.org/files/2003.11.10.paper.recent.evidence.pdf#search='SangWoo%20Nam,%20Il%20Chong%20Nam'> (last updated May 20, 2005).

so called “anti-director” mechanisms as indicative of the presence of effective corporate governance regimes, has no doubt been influential in this regard.¹⁰⁸ Statutory cumulative voting and class actions originated in the United States and are procedural mechanisms (note their procedural nature) designed to enhance minority shareholder representation at the board level, on the one hand, and promote management accountability through judicial recourse, on the other.

Again, the primary virtue of such governance mechanisms is their signaling effect to international capital markets. U.S. institutional investors recognize the signal, which means the domestic market has become aware of and taken up the corporate governance debate.¹⁰⁹ Cumulative voting and class actions are like little flags attracting the momentary attention of the international capital markets. As effective mechanisms of promoting better governance in the corporate sector domestically, however, they will likely prove disappointing. First of all, cumulative voting in particular, does little to promote corporate governance even in the United States. Secondly, as transplants, both mechanisms may prove to be the wrong form of legal rule for most of the legal systems in which they find themselves. In addition, these mechanisms may have been transplanted by a method (i.e. imposed rather than voluntarily adopted) likely to result in their failure to perform as expected.¹¹⁰

108. *See supra* note 2.

109. The author participated in a “road show” meeting in New York City in 2002 where the Sao Paulo Stock Exchange (BOVESPA) was making a presentation to major U.S. institutional investors on its new corporate governance board, the Novo Mercado. One institutional investor inquired as to whether Brazil had cumulative voting provisions in its corporate law (it didn’t). What the investor failed to realize, and what the BOVESPA failed to mention, was that pending legislation in Brazil was to provide a mechanism for direct board representation by minority shareholders holding a certain percentage of shares, in fact, a much better, substantive right than a cumulative voting mechanism. For a more detailed description of the Novo Mercado, see Jordan & Lubrano, *supra* note 48, at 341.

110. Adoption of cumulative voting and class actions has often been highly recommended or otherwise “imposed” by international financial institutions. *See, e.g.*, Joongi Kim, *Recent Amendments to the Korean Commercial Code and their Effects on International Competition*, 21 U. PA. J. INT’L ECON. L. 273, 328 (2000) (“Furthermore, Korea is facing considerable peer pressure from international organizations such as the Organization for Economic Co-operation and Development (‘OECD’) to modify its corporate regulation to reflect newly

The introduction of cumulative voting and class actions in Korea provides an example of such failure. The Korean legal system, at its most formal level, has been strongly influenced historically by German models (originally via Japan) and, for that reason, would demonstrate a predilection for *ex ante* public legal rules, written law.¹¹¹ As in the other legal systems with which Korea shares its heritage, procedural rules and reliance on *ex post* public legal rules, judicial recourse, are limited in their effectiveness. For example, in Korea, the “Commercial Code provision governing derivative actions [another U.S. procedural transplant relying on judicial action] for practical purposes has been dead paper.”¹¹²

An additional complication in the case of Korean corporate law has been the ongoing dysfunctions associated with earlier transplants from U.S. law:

Most of the faults in Korean corporations can be traced to the failure of the corporate regulatory framework. In essence, the management structure established to oversee business firms did not function as expected. Corporate actors, such as shareholders, the board of directors, representative directors, and auditors, did not fulfill their respective statutory duties. One expert describes the anomalous situation whereby Korean boards would monitor themselves as being functionally in between the dual-board system or two-tier system of Germany, and the single board or one-tier system of the United States.¹¹³

emerging international standards.”). According to Pistor, the degree of imposition of a transplanted legal rule correlates to the likelihood of failure of the rule. PISTOR, *supra* note 3, at 2. Current corporate governance endeavors eerily hark back to similar efforts at imposition of foreign transplants in the post WW II era in Japan. See Kim, *supra*, at 277 n.13 (quoting Thomas I. Blakemore & Makoto Yazawa, *Japanese Commercial Code Revisions: Concerning Corporations*, 2 AM. J. COMP. L. 12, 15–16 (1953)).

111. “Although Korea hails from the German civil law tradition, it is not a legal requirement that employees can elect a board member of the company.” Hasung Jang & Joongi Kim, *Korea Country Paper: The Role of Boards and Stakeholders in Corporate Governance*, THE THIRD OECD ASIAN ROUNDTABLE ON CORPORATE GOVERNANCE, Singapore, Apr. 4–6, 2001. Like Japan, Korea demonstrates significant U.S. influences in its statutory law, and some of its financial institutions.

112. Chul-Song Lee, *So-soo-joo-joo-gwon-ui shil-hyo-sung gum-to [Review of the Effectiveness of Minority Shareholder Rights]*, 35 SANG-JANG-HYUP 7, 7 (1997), cited in Kim, *supra* note 110, at 282 n.34.

113. Kim, *supra* note 110, at 277–78.

The legacy of ill-conceived, poorly indigenized, legal transplants persisted over decades, the structure finally cracking under the pressures of the 1997 Asian financial crisis, according to Joongi Kim. It is thus terribly ironic that solutions proposed in the wake of the crisis, such as cumulative voting, are similarly ill-conceived transplants.

Cumulative voting is a curious rule. It smacks of private legal rules, election procedures at, say, the bridge club or the country club. In the United States, its “application to shareholder voting is a path-dependent historical oddity.”¹¹⁴ It is a procedural voting mechanism, and a cumbersome one at that,¹¹⁵ under which minority shareholders have a chance (but only a chance) for some degree of representation on the board of directors.¹¹⁶ There is no statutory right to direct representation on the board. Although cumulative voting might be moderately useful in achieving its purposes in a corporation with a small number of shareholders, or one with another form of concentrated ownership, in such cases there are usually better mechanisms available.¹¹⁷

Cumulative voting was designed as a compensatory mechanism to override the principle of majority rule, whereby a ma-

114. The accepted story of the introduction of cumulative voting in the United States is truly a bit bizarre:

As part of the Illinois constitutional revision of 1870, adherents of proportional representation won a major battle to require cumulative voting for the Illinois House of Representatives. The principle having prevailed, the constitutional convention also required cumulative voting in the election of directors for private corporations. The objective was to protect minority interests against overreaching by a majority, particularly in circumstances in which representation on the board would give the minority the information necessary to police against fraud.

Jeffrey Gordon, *Relational Investors: A New Look at Cumulative Voting*, 94 COLUM. L. REV. 124, 142 (1994).

115. “One undesirable aspect of cumulative voting is that it tends to be a little tricky. If a shareholder casts votes in an irrational or inefficient way, he may not get the directorships his position entitles him to; when voting cumulatively it is relatively easy to make a mistake in spreading votes around.” ROBERT W. HAMILTON & JONATHAN R. MACEY, *CASES AND MATERIALS ON CORPORATIONS* 534 (8th ed. 2003).

116. For a historical analysis of cumulative voting, see Gordon, *supra* note 114.

117. Shareholder agreements and the use of voting groups, for example.

majority shareholder, through voting procedures, could elect an entire slate to the board of a U.S. corporation.¹¹⁸ In the United States, the original statutory formulation became a mandatory feature in many state laws.¹¹⁹ Over time, however, partly in response to the shift to more manager-friendly corporate laws in the United States, cumulative voting started to slip back into the realm of private legal rules; it remained a feature of corporate statutes, but was made optional in most states.¹²⁰ Thus, cumulative voting was made permissive, not mandatory, in most states and ultimately left to determination in the corporate charter.¹²¹ German corporate law, on the other hand, has long provided a statutory mechanism to ensure direct supervisory board representation by certain constituencies—a statutory right to direct representation.¹²²

In the aftermath of the 1997 Asian financial crisis, Korea acted quickly to re-establish confidence in its markets.¹²³

118. For a description of the operation of cumulative voting, see HAMILTON & MACEY, *supra* note 115, at 534.

119. See Gordon, *supra* note 114.

120. *Id.* at 155–60. See also HAMILTON & MACEY, *supra* note 115, at 541

(“Under the MBCA [Model Business Corporations Act], cumulative voting, like preemptive rights, is an ‘opt in’ election to be chosen by an appropriate provision in the articles of incorporation. As of 1998, thirty states had adopted an ‘opt in’ provision while twelve states had an ‘opt out’ election. Eight states make cumulative voting mandatory for all corporations, five by provision in state constitutions. The number of states with mandatory cumulative voting, however, is declining. In 1990 California, long the bastion of mandatory cumulative voting, made that manner of voting permissive for corporations with shares listed on a public exchange or with more than 800 shareholders of record.”).

121. Gordon posits two propositions for the demise of cumulative voting in the United States: “The evidence suggests two very different hypotheses: one holds that cumulative voting fell victim to a managerial race to the bottom; the other posits that cumulative voting, even if once useful, *came to interfere with good governance.*” Gordon, *supra* note 114, at 141–42 (emphasis added).

122. See SCHLESINGER ET AL., *supra* note 36, at 892 (“In Germany, under the system of *Mitbestimmung* (co-determination), workers elect normally one third of the supervisory board.”).

123. As Kim points out,

The 1997 financial crisis exposed a wide range of structural weaknesses in Korea’s economy. International organizations such as the International Monetary Fund (“IMF”) and the International Bank for Reconstruction and Development (“World Bank”), in particular, criti-

Among other things, waves of corporate law reforms were enacted, some at the suggestion of international financial institutions such as The World Bank and the IMF, with cumulative voting provisions among them. The cumulative voting rules adopted, though, were of the “weak,” or quasi-public, variety. They were not mandatory in that they could be bypassed through amendments to the corporate charter. Although some Korean academics had queried, prior to enactment, the effectiveness of these “optional” or “default” rules,¹²⁴ they had been advised that this was a modern formulation of the rule as found in the United States.

As a result, Korean corporations moved quickly, and predictably, to neutralize cumulative voting rules by charter amendments, rendering the statutory rules ineffective.¹²⁵ But then, cumulative voting was inherently ineffective in any case, as it so proved in Korea. “Even among those companies that have not excluded [cumulative voting] and...therefore must follow it, to date there have been no reports that a company has elected a director through cumulative voting.”¹²⁶

cized Korea’s corporate sector and blamed ineffective corporate regulation as a major cause of the crisis....In return for receiving their financial assistance, Korea enacted another round of extensive amendments to its corporate laws on December 28, 1998....Finally, on December 31, 1999, several additional amendments were enacted.

Kim, *supra* note 110, at 276.

124. Conversation with Hasung Jang, Director, Asian Institute of Corporate Governance, Korea University Business School, in Washington, D.C. (Sept. 2000).

125. See Jang & Kim, *supra* note 111.

126. *Id.* at 3

(“As of 1998, cumulative voting has become an option for companies. Unfortunately, from a policy standpoint, it has remained largely ineffective. The problem lies in that when the Commercial Code was amended to allow cumulative voting the new law also included a provision that permits companies to exclude it through their articles of incorporation. (CC382-2). As a result, as of November 2000, 77.6% of all listed companies have adopted provisions in their articles that specifically exclude cumulative voting....The new SEC has attempted to ameliorate this situation by requiring that shareholders with at least one percent of the voting stock can request cumulative voting. (SEC 191-18). This substantially lowers the previous holding requirement of three percent that still applies to non-listed companies. The new SEC also tries to reverse the trend of excluding cumulative voting and has stopped just short of mandating it.”).

Wrong rule, wrong form of rule. A German-style rule providing for direct board representation, a substantive right rather than a dubious procedural mechanism, would likely have been more compatible with the underlying German framework of the corporate law (even as it had become denatured by earlier U.S. transplants)¹²⁷ and, thus, more effective. Some commentators had actually suggested a more German style rule, but did not prevail.¹²⁸ And, if an effective cumulative voting rule had still been the desired result, a mandatory statutory provision would have been more effective.¹²⁹

However, the overriding question of whether cumulative voting actually promotes better corporate governance, even in the United States, has never been satisfactorily answered.¹³⁰ Cumulative voting does appear, in its “weak” or “optional” form, in most state statutes in the United States. Its operation is discussed, sometimes at length, in U.S. law texts.¹³¹ In other words, the cumulative voting mechanism is a visible tip of the iceberg. However, cumulative voting rights are not very effective as a minority shareholder protection mechanism under any circumstances, and particularly not in a listed or publicly-

127. With respect to the adoption of the U.S.-style board of directors in Japanese law, it was said at the time, “On a Commercial Code of continental origin, there have been forcibly grafted certain limbs of alien, Anglo-American origin.” Kim, *supra* note 111, at 277 n.13 (quoting Thomas I. Blakemore & Makoto Yazawa, *Japanese Commercial Code Revisions: Concerning Corporations*, 2 AM. J. COMP. L 12, 15–16 (1953)).

128. According to Kim,

One observer argues that Korea is not ready for the cumulative voting system because it will create confusion...Choi proposes instead a new system of corporate governance whereby 50% of the board would be elected as before, 35% would be elected with each shareholder's voting rights being limited to a maximum of 3%, and the remaining 25% would be elected by large creditors....For companies with more than 10,000 workers, a representative from the workers would be elected.

Kim, *supra* note 110, at 295 n.107.

129. Jang & Kim, *supra* note 111.

130. Gordon, *supra* note 114, at 127 (“[T]he evidence is far from clear that cumulative voting increases aggregate shareholder welfare across all firms at all times.”).

131. See HAMILTON & MACEY, *supra* note 124.

traded U.S. corporation.¹³² Since the greater corporate governance debate implicates only publicly traded corporations, cumulative voting rights are thus more or less irrelevant.¹³³ Cumulative voting provisions are fossils trapped in the bedrock of U.S. corporate statutes.

This raises the question of how cumulative voting provisions gained international prominence as a corporate governance mechanism. The highly regarded and influential LLSV studies are a likely culprit.¹³⁴ In the difficult search to isolate econometric indicia of shareholder protections, the statutory provisions in U.S. corporate law on cumulative voting were visible and accessible. That cumulative voting rights, as a minority shareholder protection, were irrelevant to publicly-traded corporations in the United States was not immediately obvious.¹³⁵ The

132. Irrespective of whether cumulative voting mechanisms are available, minority shareholder voting rights in U.S. publicly-traded corporations are largely illusory. Unlike many other places in the world (including the UK and continental Europe), the residual authority in a corporation does not reside in the general meeting of shareholders. In particular, the control of the nomination process by the directors themselves, together with management control of the proxy voting process in the United States, means that minority shareholder voting rights count for very little. Shareholders may only vote for (or abstain from voting for) the slate of directors put before them by management:

[T]here is one big problem with demanding more activism from shareholders; their votes in America are still largely worthless, as this season's proxy season, which has just begun, will show once again. Despite all the talk in America about shareholder democracy and ownership, shareholder resolutions, even if backed by a majority, are rarely binding on management. In many cases, managers can even stop a resolution from being put to a vote. The Securities and Exchange Commission recently proposed a tiny rule change to make it slightly easier for shareholders to nominate candidates for election to boards of directors. Lobbyists representing America's top bosses easily and unceremoniously killed the proposal.

Bossing the Bosses, ECONOMIST, Apr. 9, 2005, at 13.

133. Mark Roe notes, "Wall Street lawyers might have reservations about heavily using preemptive rights, cumulative voting and the minimum percentage needed to call a special shareholders meeting—items not likely to be near the top of most American lawyers' lists of Delaware corporate law's most important legal protections." MARK J. ROE, CORPORATE LAW'S LIMITS 29 n.37 (Colum. Law School, Ctr. for Law and Econ. Studies, Working Paper No. 186, Jan. 16, 2002), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=260582 (last visited May 20, 2005).

134. See *supra* note 2.

135. Except to Wall Street lawyers, perhaps.

complexity and dynamism of legal systems present difficult challenges for econometric analysis.

However, it gets worse: the “defect” in the cumulative voting provision in Korea was “fixed.”¹³⁶ A form of mandatory cumulative voting has proven to be worse than merely irrelevant for Korean corporations with voting shares trading in the United States. It is virtually impossible to reconcile mandatory cumulative voting provisions with the already difficult U.S. proxy voting rules and practices for publicly-traded corporations.¹³⁷ Further, like most other non-U.S. issuers,¹³⁸ shares of Korean corporations will usually be traded through a derivative form of security, known as American Depositary Receipts, thus adding further devilish complexity to the voting process.¹³⁹

H. Class Actions

Class actions present even less likelihood of effectiveness as a governance mechanism in most transitional and emerging markets. At least with cumulative voting, there would be a chance of developing rules that could, technically, work in the context of corporate legislation to which they were not native. Class actions, however, depend upon the existence of an experienced judiciary, an extensive network of other procedural rules, an active body of litigation professionals and, in terms of particular legal sensibilities, a general populace with a litigious bent.¹⁴⁰

136. See JANG & KIM, *supra* note 111.

137. As noted *supra* Section VI(g), the vast majority of U.S. publicly-traded corporations do not have cumulative voting provisions, so the proxy voting rules are not designed to take them into account.

138. Canadian and Israeli issuers being notable exceptions.

139. For example, refer to the 2005 U.S. proxy materials for KT (formerly known as Korea Telecom Corp.) which has American Depositary Receipts (ADRs) trading in the United States. (Proxy materials on file with author). The complexity of the voting procedures, resulting from the use of cumulative voting, would astonish a U.S. issuer of publicly traded securities. In the case of KT, it is interesting to note that cumulative voting was at the behest of its labor union. “Under the Korean Commercial Code and Securities Exchange Act, anyone who holds more than 1% of shares of KT with voting rights can request cumulative voting. In this case, Mr. Ji Jae Shik, a shareholder, requested cumulative voting on February 23, 2005. Please note that this request process was actually initiated by KT Labor Union.”

140. See generally HON. JACK B. WEINSTEIN, *INDIVIDUAL JUSTICE IN MASS TORT LITIGATIONS: THE EFFECT OF CLASS ACTIONS, CONSOLIDATIONS, AND OTHER MULTI-PARTY DEVICES* (1995).

Class actions form part of the body of procedural law, in the great common law tradition of no right (or wrong) without a remedy.

So-called “class action” provisions dropped into otherwise substantive corporate law of a transitional or emerging market economy would arrive dead on arrival. There would be no procedural rules or institutions to support them, much less the inclination to make use of them, were such rules to develop.¹⁴¹

VII. TENTATIVE CONCLUSIONS

Following a dozen or so years of “a massive process of change in adherence to legal information,” as H. Patrick Glenn puts it, a huge, slow, process of digestion and “indigenization” is now ongoing.¹⁴² Like a boa constrictor enjoying a good meal, there is no doubt that in certain places, at certain times, some bits may be spat out or pass through without leaving a trace. There is equally little doubt that what is ingested will be transformed by the process.

In terms of mobilizing the forces of the capital markets effectively to raise standards of governance in corporations, the Latin American experience may be particularly instructive.¹⁴³ The initiatives differ among themselves, depending on various factors such as prevailing forms of corporate ownership and capital structure. Not every initiative may be directly transferable elsewhere in all cases, but there may be positive lessons to be learned.

141. Between 1998 and 2002, there were only thirteen suits filed by minority shareholders in Korea. *See supra* note 44.

One recent reform intended to impose discipline on managers and majority shareholders is the availability of class action suits. The new law passed by the National Assembly, the Securities Related Class Action Law, will allow shareholders to file class actions from January 1, 2005, in respect of companies with Won 2 trillion or more in assets....

Kyung Taek Jung & Hwa Soo Chung, *Korea Aims for World Class Corporate Governance*, INT'L FIN. L. REV., Apr. 2005, available at <http://www.legalmedia.com/iflr/default.asp?Page=1&SID=5710&F=F>.

142. *See generally* Legrand, *supra* note 20.

143. For more detailed analysis of Latin American initiatives in corporate governance, see Jordan & Lubrano, *supra* note 48.

Latin Americans are proving adept at legal transplantation because they have the advantage of proximity and exposure to North American law, markets and practices. For example, both Mexico and Quebec, French civil code jurisdictions, can fearlessly introduce Anglo-American trust law concepts, and make them work, because they understand the principles and have a long history of familiarity with them. Further, the integration of the North and South American capital markets means that Latin Americans want to make the new concepts work, a good predictor of effectiveness according to Pistor.¹⁴⁴ In addition, capital market integration along this north/south axis is well advanced and the international signaling imperative is at work.¹⁴⁵ Further, Latin Americans are introducing governance mechanisms in multiple guises along the continuum of private and public legal rules in order to amplify the prospects of effectiveness.

Brazil's initiatives are particularly interesting in moving contractual governance mechanisms (private legal rules) into the listing rules (semi-public legal rules) and then backing them with corresponding legislative changes (*ex ante* public legal rules). The BOVESPA's Novo Mercado has elicited attention elsewhere.¹⁴⁶ It may prove to be good vehicle for maximizing the effectiveness of capital markets forces on the governance of corporations. Time will tell.

Of course, these observations have been based on recent, but past, experiences. There are now several new factors to consider. The corporate governance scandals in the United States have shaken confidence in the old, familiar mechanisms of capital market and corporate governance.¹⁴⁷ The formal, public response to the scandals, embodied in the Sarbanes-Oxley legislation,¹⁴⁸ is more a symptom than a solution. New approaches are

144. See PISTOR, *supra* note 3.

145. See COFFEE, COMPETITION AMONG SECURITIES MARKETS, *supra* note 4.

146. The Jakarta Stock Exchange, for example, and its capital markets regulator, BAPEPAM, for example, were interested in the Brazilian experience.

147. The Enron and WorldCom scandals being the most prominent, and the proximate cause of the Sarbanes-Oxley legislation. See Mark J. Roe, *Delaware's Competition*, 117 HARV. L. REV. 558 (2003).

148. Sarbanes-Oxley Act of 2002, Pub. L. No. 107-204, 116 Stat. 745 (2002) [hereinafter Sarbanes-Oxley Act].

appearing elsewhere, notably in Europe.¹⁴⁹ Europe is also providing new models of capital market regulation, controversial and untested though they may be, in the form of the EU Prospectus Directive, for example, which comes into effect in July 2005. Revitalized European stock markets, together with a new pan-European regulatory structure, may be more compatible with and change the dynamics of the legal systems of any number of countries. And finally, could it be that an older style of commercial morality and heightened legal sensibilities are creeping back into U.S. boardrooms?¹⁵⁰

149.

If William Donaldson is looking for ways to shake up the U.S. stock markets, as the Securities and Exchange Commission chairman appears poised to consider, he might want to look at Europe. European's [sic] stock markets have their own flaws, but in the past decade have taken just the kind of steps to electronic and cheap exchanges overseen by independent regulators that could now be in play in the U.S. The pressure for change in the U.S. markets comes in the wake of an outcry over the perceived lack of corporate governance at the New York Stock Exchange and the forced resignation of its chief executive, Dick Grasso.

Model Market Could be in Europe, WALL ST. J., Sept. 25, 2003, at C14.

150. Sarbanes-Oxley Act does require disclosure of whether reporting corporations have an ethics committee. See Sarbanes-Oxley Act § 406. See also *Boeing Chief Quits Over Affair*, FIN. TIMES, Mar. 8, 2005, at 1

("Harry Stonecipher, the man brought out of retirement to restore Boeing's reputation, was ousted as chief executive yesterday for having an affair with a female executive. The departure is a serious blow to Boeing, which is working hard to restore its reputation. A series of executives has left under a cloud....The episode also raises questions about how far corporate ethics should reach into personal lives.").

COMPLYING WITH INTERNATIONAL LAW: A CALL FOR FREE AND FAIR ELECTIONS

I. INTRODUCTION

Africa has an extensive history of ethnic conflict.¹ During the colonial era, many ethnic groups in Africa were arbitrarily joined together in an effort to form territorial units with little regard for the pre-existing boundaries.² Following independence, many African countries retained the boundaries that were established by colonial powers.³ The ethnic conflict that ensued has inevitably been reflected in the political processes and has largely prevented these countries from experiencing the stability necessary to establish a true democracy.⁴

An emerging right to democratic governance has been recognized by the international community.⁵ This right is based on the theory that governments derive their powers from the consent of the governed.⁶ This requires an electoral process characterized by public participation.⁷ Thus, an important manifestation of this right is holding free and fair elections. Because “representative democracy is an indispensable condition for

1. Okechukwu Oko, *Partition or Perish: Restoring Social Equilibrium in Nigeria through Reconfiguration*, 8 IND. INT'L & COMP. L. REV. 317, 319 (1998) [hereinafter Oko, *Partition or Perish*]. Chinedi Reginald Ezetah, *Minority Rights: International Law of Self-Determination and the Ogoni Question: Mirroring Africa's Post-Colonial Dilemma*, 19 LOY. L.A. INT'L & COMP. L.J. 811, 812 (1997).

2. INTERNATIONAL LAW: NORMS, ACTORS, PROCESS 124 (Jeffrey L. Dunoff, et al. eds., 2002).

3. The preservation of colonial borders was the result of *uti possedetis*. According to this principle, borders drawn under the colonial regime that corresponded to a colonial entity were preserved when the colonies achieved independence. *Id.* at 124.

4. See Oko, *Partition or Perish*, *supra* note 1, at 318–19. See also Linda Maguire, *Power Ethnicized*, 2 BUFF. JOUR. INT'L L. 49 (1995) (discussing how the policies of the colonial powers contributed to ethnic divisions in African colonies, especially in Rwanda and Burundi).

5. Thomas M. Franck, *The Emerging Right to Democratic Governance*, 86 AMER. J. INT'L L. 46, 46–47 (1992).

6. *Id.* at 46.

7. *Id.* at 63.

[the] stability, peace and development,"⁸ elections are especially important in countries that have historically been plagued by ethnic conflict and are emerging from transitional periods.

While many African states have established democratic governments through elections, the political environments in which these elections are held have generally been regarded with suspicion. Indeed, many elections are marred by reports of threats, intimidation, harassment and violence.⁹ The hostile political environment in which many African elections are held naturally raises questions about the "fairness" of these elections. Instead of democratic governments, citizens have been subjected to oppressive regimes, which justify their political repression as based on a need to combat the security threats that ethnic conflicts pose.

Although these countries have taken substantial steps towards establishing a democratic government, this Note argues that there are international and domestic obligations to hold free and fair elections that have not been fulfilled. As an example, this Note will examine elections in Nigeria and Rwanda, two African states emerging from a transitional period. Part II will provide an overview of the political history in these two states. Part III will discuss the sources of the obligations to hold free and fair elections. Part IV will discuss the failure of these two countries to fulfill their obligations by examining the

8. O.A.S. Charter, pmb., available at <http://www.oas.org/juridico/English/agres1080.htm>.

9. See Ellen Knickmeyer, *Security Forces Move Out in Force to Quell Challenges to Africa's Longest-reigning Ruler*, ASSOCIATED PRESS, June 3, 2003 (For example, President Eyadema of Togo, a West African country, has been in power since 1963. Although Togo holds elections, President Eyadema has routinely used force to quash any opponents. Following the 1998 presidential elections when Eyadema abruptly stopped the vote count and declared himself the winner, international donors discontinued almost all funds to Togo.). See also INT'L CRISIS GROUP, ZIMBABWE: ANOTHER ELECTION CHANCE, EXECUTIVE SUMMARY AND RECOMMENDATIONS (2004), at <http://www.crisisgroup.org/home/index.cfm?id=3142&l=1> (last visited Mar. 9, 2005) (summarizing the problems with the political environment in Zimbabwe leading up to the March 2005 elections including how President Mugabe has "used economic bribery, bullying and propaganda to increase his support and remain in power."). See also Franck, *supra* note 5, at 50 (The results of the 1988 national elections in Senegal were widely regarded as fraudulent by both opposition parties and social institutions. As a result, the opposition parties boycotted the 1990 local elections.).

repressive atmosphere in which the recent elections took place, the constitutional violations that resulted, and the inadequacy of the mechanisms designed to ensure free and fair elections. This Note will conclude in Part V that, in addition to fulfilling international and domestic obligations, free and fair elections are extremely important in countries plagued by ethnic conflict and emerging from a transitional period because they provide legitimacy both internationally and domestically.

II. POLITICAL HISTORY

A. Nigeria

During the colonial era, many of the different ethnic groups in Nigeria were forced into one “nation-state.”¹⁰ In Nigeria, there are approximately 250 ethnic groups.¹¹ There are three main ethnic groups: the Hausas in the North, the Yorubas in the West and the Ibos in the East.¹² Within these main ethnic groups are many smaller groups.¹³ The British disregarded the fact that many of these ethnic groups existed as separate tribal communities with their own languages, religion and culture.¹⁴ Despite this forced unification of different ethnicities, the colonial policies utilized by the British actually encouraged ethnic divisions and set the stage for ensuing ethnic distrust.¹⁵ Because Britain did not treat Nigeria as a single nation, its citi-

10. Oko, *Partition or Perish*, *supra* note 1, at 327–28.

11. Ezetah, *supra* note 1, at 813.

12. Okechukwu Oko, *Confronting Transgressions of Prior Military Regimes Towards a More Pragmatic Approach*, 11 *CARDOZO J. INT'L & COMP. L.* 89, 102–03 (2003) [hereinafter Oko, *Confronting Transgressions*].

13. *Id.* at 103.

14. Oko, *Partition or Perish*, *supra* note 1, at 327.

15. *See id.* at 330–31. In response to Britain's disregard of customary values and tradition, many citizens found solace in their ethnic groups. This had the effect of strengthening their ties to their ethnic groups and promoting loyalty to the different ethnic groups rather than to the state as a whole. In 1900, Britain adopted a policy of ruling the North and South as two separate entities and, in 1914, Southern Nigeria was divided into eastern and western regions. Because each region was comprised of different ethnic groups, British policy created a breeding ground for ethnic distrust among the different regions. *Id.*

zens did not consider themselves part of one nation and, thus, limited their concerns to their own ethnic groups.¹⁶

1. Post-Independence

When Nigeria achieved independence in 1960,¹⁷ it had an opportunity to establish an appropriate government for its multi-ethnic society. The government that was established, however, consisted of a parliamentary democracy in which political leaders tended to represent their respective ethnic groups.¹⁸ The ethnic distrust formed during the colonial era contributed to this post-independence political environment of ethnic self-interest in which the nation's welfare as a whole was rarely the focus of political campaigns.¹⁹ In this political environment, it was no wonder that the first post-independence elections in the republic of Nigeria proved useless as politicians "brutally displayed their lack of respect for democracy."²⁰

2. Military Rule

Nigeria's transition to democracy was undermined by the corruption that had infused the political process. The solution to Nigeria's degeneration into anarchy came in the form of a military government.²¹ In 1966, a military intervention was claimed necessary in order to avoid the country's demise.²² Following an unsuccessful coup in which the federal prime minister and finance minister were murdered,²³ General Ironsi, who was in command of the Nigerian army, took over administration of the country at the request of the remaining members the government.²⁴ The military regime promptly promulgated the

16. *See id.* at 331–32.

17. THE CARTER CENTER AND NAT'L DEMOCRATIC INST. FOR INT'L AFF., OBSERVING THE 1998–1999 NIGERIA ELECTIONS, FINAL REPORT 13 (1999) [hereinafter CARTER CENTER REPORT], at <http://www.cartercenter.org/documents/1152.pdf> (last visited Mar. 9, 2005).

18. Oko, *Partition or Perish*, *supra* note 1, at 331–33.

19. *Id.* at 332.

20. *Id.* at 333.

21. *Id.* at 333–34.

22. Elizabeth Knight, *Facing the Past: Retrospective Justice as a Means to Promote Democracy in Nigeria*, 35 CONN. L. REV. 867, 872 (2003).

23. *Id.*

24. Oko, *Partition or Perish*, *supra* note 1, at 334.

Constitution (Suspension and Modification) Decree.²⁵ This decree gave the military government the power to “make laws for the peace, order and good government.”²⁶ Under the pretense of promoting national unity, the decree suspended the Constitution and left the military regime free to “embark upon wholesale destruction of the democratic process.”²⁷ The military regime attempted to ensure compliance with its rule by quashing dissenters and undermining the entire system of government.²⁸ The military, however, was not immune from the ethnic divisions that plagued the country as a whole and nearly six months later, the army split off into ethnic groups.²⁹

The next military regime, headed by Colonel Gowon, was again the product of a coup in 1966.³⁰ This time, like the last, the justification for military intervention was a need to avoid the disintegration of the country.³¹ In response to growing ethnic tensions between the east and north regions, Colonel Gowon divided all four regions into twelve different states.³² The result, however, was a polarization of ethnic groups in newly created territorial divisions in which some states consisted of a single ethnic group.³³ A thirty-month civil war ensued after the eastern region threatened secession, but Colonel Gowon managed to crush the opposition in order to “maintain the territorial integrity” of the nation and to “assert the ability of the black man to build a strong progressive and prosperous modern state.”³⁴ In spite of Colonel Gowon’s promise that there would

25. See Okechukwu Oko, *Consolidating Democracy on a Troubled Continent: A Challenge for Lawyers in Africa*, 33 VAND. J. TRANSNAT’L L. 573, 591 (2000).

26. *Id.* at 591 n.83.

27. Oko, *Partition or Perish*, *supra* note 1, at 334. In 1966, General Ironsi promulgated the Unification Decree abolishing all regional governments. He justified his radical action on the grounds that the Decree would rid the country of all traces of regionalism thereby promoting the cohesion necessary for a successful government. *Id.*

28. Knight, *supra* note 22, at 872.

29. Oko, *Partition or Perish*, *supra* note 1, at 335.

30. *Id.* at 336.

31. Knight, *supra* note 22, at 873.

32. Oko, *Partition or Perish*, *supra* note 1, at 335.

33. *Id.* (For example, the East Central State, part of the former eastern region, was comprised solely of Ibos).

34. *Id.* at 335–36 (Colonel Ojukwu, the former governor of the eastern region, declared the former eastern region the Republic of Biafra). This was not

be a restoration of democracy following his transitional period of military rule, by the end of his reign democracy still had not been restored.³⁵

3. Return to Civilian Government

The military regime headed by Colonel Olusegun Obasanjo appeared to fare better in keeping its promise to restore democracy. A Constitution Drafting Committee, composed of fifty members from various states and professions, was created.³⁶ In an effort to address the concerns of the country's multi-ethnic communities, specific provisions were included to discourage ethnic conflict.³⁷ Most importantly, the new constitution established a presidential system of government,³⁸ finally fulfilling the military's promise of a restoration to democracy.

Once the Constitution was promulgated into law on October 1, 1979,³⁹ a Federal Electoral Commission (Commission) was established.⁴⁰ The Commission was responsible for organizing elections and regulating the activities of political parties.⁴¹ One of the main objectives of the Commission was to ensure that all political associations were open to every citizen, regardless of their ethnicity, and that each association truly reflected the multi-ethnic character of the country.⁴² When the military lifted

the last time Nigeria would be faced with a threat of secession. In October 1990, the Ogoni, an ethnic minority group located in the south of the country, presented its demand for self-determination to the military government of General Babangida. Ezetah, *supra* note 1, at 817–20. The Ogoni's demands were met with violent oppression. *Id.*

35. Colonel Gowon's reign ended in a coup in 1975. His successor was General Mohammed, a cabinet minister under Colonel Gowon. *See* Oko, *Partition or Perish*, *supra* note 1, at 338.

36. *Id.* at 337.

37. For example, the Constitution prohibited discrimination on the grounds of ethnic association, encouraged intermarriage among persons from different ethnic groups and promoted the formation of associations that cut across ethnic barriers. NIG. CONST. (Constitution of the Federal Republic of Nigeria, 1979) § 15(2)–(3)(c)–(d).

38. *See id.* § 30–42. *See also* Oko, *Partition or Perish*, *supra* note 1, at 338.

39. *See* Const. (Enactment) Decree No. 25 (1978) (Nig.).

40. NIG. CONST. (Constitution of the Federal Republic of Nigeria, 1979) § 140(1)(c).

41. Oko, *Partition or Perish*, *supra* note 1, at 339.

42. NIG. CONST. (Constitution of the Federal Republic of Nigeria, 1979) § 202(b), (e).

the ban on political parties, however, many of the same politicians from the first post-independence political scene returned,⁴³ which set the stage for the elections of 1979.

4. Elections

Election monitors claimed the elections of 1979 were “tolerably free and fair.”⁴⁴ This appeared to restore some faith in the democratic system, as there was no military intervention. When President Shehu Shagari was re-elected in 1983, however, it became apparent that there had been widespread vote-rigging and that the election had been a fraud.⁴⁵ Not surprisingly, the military intervened again and ousted President Shehu Shagari, this time claiming the need to “redress the nation’s social and economic problems.”⁴⁶ Presidential elections were held again in 1993, and Moshood Abiola, a Yoruba businessman, was the apparent winner.⁴⁷ General Babangida, however, nullified the elections on the eve of the election results.⁴⁸ Many suspected the General of nullifying the election because Abiola was perceived as a threat to the northern tribes that traditionally dominated Nigerian politics.⁴⁹

43. Oko, *Partition or Perish*, *supra* note 1, at 340. Ultimately, the Commission approved five political parties: Great Nigeria’s People Party (GNPP); National Party of Nigeria (NPN); Nigeria Peoples Party (NPP); Peoples Redemption Party (PRP) and Unity Party of Nigeria (UPN). *Id.* at 339.

44. *Nigeria’s History of Turmoil*, WASHINGTONPOST.COM, (N.D.) [hereinafter *Nigeria’s History of Turmoil*], at <http://www.washingtonpost.com/wp-srv/inatl/longterm/nigeria/timeline.htm> (last visited Apr. 9, 2005). Shehu Shagari of the National Party of Nigeria (NPN) was elected in October 1979. *Id.*

45. RICHARD A. JOSEPH, *NIGERIA: THE RISE AND FALL OF THE SECOND REPUBLIC 170–73* (1987).

46. Knight, *supra* note 22, at 872.

47. Frank Aigbogun, *General Takes Control of Nigeria*, ASSOC. PRESS, Nov. 18, 1993, available at <http://washingtonpost.com/wp-srv/inatl/longterm/nigeria/stories/general111893.htm> (last visited Apr. 9, 2005).

48. CARTER CENTER REPORT, *supra* note 17, at 13. Both local and international election observers regarded the 1993 elections as “free and fair.” UN Office for the Coordination of Humanitarian Affairs, *Irin Web Special On Nigeria*, IRINNEWS.ORG (N.D.) [hereinafter *Irin Web Special On Nigeria*], at <http://www.irinnews.org/webspecials/nigeria/default.asp> (last visited Mar. 6, 2005).

49. Aigbogun, *supra* note 47. When Abiola declared himself President in 1994 he was arrested and charged with treason. Abiola eventually died in

Following the annulled election, General Babangida stepped down and established a civilian government that was promptly taken over by General Abacha.⁵⁰ Despite the military government's promise of a transition to democracy, the subsequent elections held in 1998 proved to be a ploy to preserve the military's power.⁵¹ Only five parties were permitted to participate in the elections and all nominated General Abacha.⁵² The elections were an effort to bolster the military's image, whose popularity was at an all-time low, both domestically and abroad, by implementing political reforms in response to the international community's growing concern about the government's brutal political repression.⁵³ The international community, however, denounced the elections and many Nigerian citizens voiced opposition to the present government through demonstrations, riots and increasing acts of violence.⁵⁴

When General Abacha suddenly died, his successor, General Abubakar, promptly stepped in and attempted to improve the image of the government.⁵⁵ It appeared that the transition to democracy would take place and, in 1998, Abubakar agreed that elections would be held by early 1999.⁵⁶ To facilitate this process, he established an Independent National Electoral Commission (INEC) in 1998 to organize and supervise the electoral process.⁵⁷

prison in 1998. *Nigeria's History of Turmoil*, *supra* note 44. His wife, Kudirat Abiola, was shot to death in 1996. *Id.*

50. CARTER CENTER REPORT, *supra* note 17, at 13.

51. *Id.* at 14.

52. *Id.*

53. *Id.* In response to the military government's harassment and detention of political dissidents, including journalists, human rights activists and politicians, the international community restricted aid and relations with Nigeria. *Id.* In particular, the United States and the European Union recalled their ambassadors and the U.N. General Assembly passed a resolution in December 1995 condemning the executions. Ezetah, *supra* note 1, at 822-23.

54. CARTER CENTER REPORT, *supra* note 17, at 14 (noting that there were also frequent anti-government bombings).

55. *Id.* at 14 (General Abacha reportedly died of a heart attack).

56. *Nigeria's History of Turmoil*, *supra* note 44.

57. See Const. (Independent National Electoral Commission Decree) Decree No. 17 § 4(1)(a) (1998) (Nig.). A former justice, Ephraim Akpata, was appointed chair of the commission. CARTER CENTER REPORT, *supra* note 17, at 16.

The INEC is authorized to exercise considerable discretion in the performance of its duties to organize, conduct and supervise all elections.⁵⁸ Its duties include conducting voter registration, compiling authentic voter registers and monitoring political parties.⁵⁹ In order to perform its duties, the INEC may establish rules and regulations to govern the operation of the parties as well as their campaigns.⁶⁰ In addition, the INEC is authorized to issue guidelines to govern the election process.⁶¹

For the 1998-99 elections, former U.S. President Jimmy Carter initiated a mission to observe the elections.⁶² Although international election monitors agreed that the elections were an important step in the democratization process, they noted many "electoral irregularities."⁶³ In an ironic twist, former military ruler, Olusegun Obasanjo was confirmed the winner.⁶⁴ It was alleged that the election was influenced by northern military political power when the Muslim Hausa in northern Nigeria dominated the military and exerted its power to keep a Christian Yoruba from becoming President for fear that government funds would be diverted away from the North.⁶⁵ In spite of the allegations of bribery and recognition of election process deficiencies, the election was nevertheless hailed as an important step in the democratic process.⁶⁶

58. NIG. CONST. (Constitution of the Federal Republic of Nigeria, 1999) 3rd sched., § 15(a).

59. *Id.* § 15(e)-(f).

60. *Id.* § 15(c), (f).

61. *See* Const. (Independent National Electoral Commission Decree) Decree No. 17 § 4 (1998) (Nig.).

62. *See generally* CARTER CENTER REPORT, *supra* note 17. (Local elections were held on Dec. 5, 1998; State and Governor elections were held on Jan. 9, 1999; National Assembly elections on Feb. 10, 1999 and the National elections on Feb. 27, 1999.).

63. *Id.* at 32 (noting that the reported voter turnout greatly exceeded voter registration).

64. Irin Web Special on Nigeria, *supra* note 48. Obasanjo was the military ruler who handed over the government to civilian rule in 1979. *Id.* Obasanjo was jailed by General Abacha for allegedly plotting to overthrow the government. *Id.* He was released just months before the election. *Id.*

65. Knight, *supra* note 22, at 886. Although President Obasanjo is of Yoruba descent, it was alleged that he "had the support of the military and was controlled by powerful northern political interests." *Id.*

66. *Id.*

B. Rwanda

1. Colonial History

When Rwanda was colonized by Germany in the late nineteenth century,⁶⁷ it was inhabited by three ethnic groups: Hutu, Tutsi and Twa.⁶⁸ The Tutsi migrated to Rwanda in the fourteenth century, which was already inhabited by the Hutu and Twa.⁶⁹ Although the Tutsi were greatly outnumbered by Hutus, it became the dominant group.⁷⁰ Rwanda was a monarchy and the Tutsi kings ruled from the 1600s forward.⁷¹ Despite the political dominance of the Tutsi, the Hutu and Tutsi lived in relative peace before colonization.⁷²

After Germany's defeat in World War I, Rwanda was ceded to Belgium.⁷³ Like Germany, Belgium administered a colonial policy of indirect rule.⁷⁴ Unlike Germany, however, Belgium arbitrarily determined who the rulers of Rwanda would be and replaced all Hutu leaders with Tutsis.⁷⁵ In addition, the Tutsi

67. Maguire, *supra* note 4, at 55. In the late 1800s, there were many German-led expeditions into the region that would become known as Ruandi-Urundi, now known as the countries Rwanda and Burundi. *Id.* By 1899, Germany exercised "de facto control" over the area through the establishment of various military outposts and Rwanda became part of German East Africa. *Id.*

68. Dorinda Lee Peacock, Comment, *It Happened and It Can Happen Again: The International Response to Genocide in Rwanda*, 22 N.C.J. INT'L L. & COM. REG. 899, 911 (1997). The Twa were the original inhabitants of the region, the Hutu were agriculturalists and the Tutsi were pastoralists. *Id.*

69. BBC News, *Timeline: Rwanda* (Aug. 26, 2003) [hereinafter *Rwanda Timeline*], at http://news.bbc.co.uk/1/hi/world/africa/country_profiles/1070329.stm (last visited Mar. 6, 2005).

70. Peacock, *supra* note 68, at 911.

71. *Rwanda Timeline*, *supra* note 69.

72. Maguire, *supra* note 4, at 61. The relationship between the Hutu and Tutsi strongly resembled the European feudal system. *Id.* The Hutu were agriculturalists and harvested crops on parcels of land and paid the Tutsi to protect them. *Id.* Although the social system was based on inequality, each ethnic group relied on the other, thus, neither group resorted to violence against the other. *Id.*

73. *Id.* at 55.

74. *Id.*

75. *Id.*

also enjoyed economic and educational advancement.⁷⁶ The basis of Belgium's policy was the alleged superiority of the Tutsi, who most resembled Europeans as they were taller and had lighter complexions than the Hutu.⁷⁷ As a result of Belgium's policy of preferential treatment, Hutus were systematically excluded from participating in the political, educational and judicial spheres of society.⁷⁸

When Rwanda was deemed a UN trust territory in 1946, Belgium became responsible for promoting Rwanda's transition towards independence.⁷⁹ Belgium's policy towards its colonial inhabitants, however, took a different approach. Instead of exhibiting clear preferential treatment towards the Tutsi, the Belgians began to promote and incite the existing atmosphere of ethnic and political tension.⁸⁰ Although the Belgians implemented constitutional reforms designed to give the Hutu greater representation in government, the Tutsi retained their control over government positions.⁸¹ Despite the Hutus demand for representation proportionate to their numbers, the Tutsi were, naturally, reluctant to relinquish control.⁸² Finally, as a result of Hutu discontent and Belgium encouragement, the Hutu began to rebel against the politically dominant Tutsi.⁸³

In 1959, Hutu discontent manifested itself in a violent uprising that resulted in thousands of deaths.⁸⁴ Thousands of Tutsis fled to Uganda, including Tutsi King Kigeri V.⁸⁵ The result of

76. BBC News, *Rwanda: How the Genocide Happened* (June 7, 2001) [hereinafter *Rwanda: How the Genocide Happened*], at <http://news.bbc.co.uk/1/hi/world/africa/1288230.stm> (last visited Mar. 6, 2005).

77. Maguire, *supra* note 4, at 55, 62–64. See also *Rwanda: How the Genocide Happened*, *supra* note 76 (discussing the basis for the Belgians' preferential treatment of the Tutsi).

78. Maguire, *supra* note 4, at 55.

79. *Id.* at 56.

80. *Id.* at 56–57.

81. *Id.* at 57. During this period of transition, the Tutsi held all forty-three of the chiefdoms, 549 sub-chief positions (out of 559) and approximately eighty-two percent of judicial and agricultural positions. *Id.*

82. U.S. DEP'T OF STATE, U.S. DEP'T OF STATE POST REPORT, RWANDA [hereinafter U.S. DEP'T OF STATE RWANDA REPORT], at http://foia.state.gov/MMS/postrpt/pr_view_all.asp?CntryID=125 (last visited Feb. 27, 2005).

83. *Id.*

84. *Rwanda: How the Genocide Happened*, *supra* note 76 (estimating that more than 20,000 Tutsis were killed).

85. *Rwanda Timeline*, *supra* note 69.

the "Rwandan Revolution," which was primarily led by the Hutu-dominated political party, Parti du Mouvement de l'Emancipation Hutu (PARMEHUTU), was the abolition of the monarchy and the establishment of a republic.⁸⁶ Thus, when Rwanda gained independence in 1962, the Hutus were in power of the newly formed, independent Republic of Rwanda.⁸⁷

2. Post-Independence

In the years following independence, the Hutu maintained their political power by systematically discriminating against the Tutsi.⁸⁸ Under the repressive Hutu regime, Tutsis were periodically subjected to waves of killing and ethnic cleansing.⁸⁹ In Uganda, Rwandan refugees, mostly comprised of Tutsi whose return had been continually prevented by the Hutu government, formed a rebel group, the Rwandan Patriotic Front (RPF).⁹⁰ In 1990, the RPF invaded Rwanda and the civil war that ensued lasted for three years with a death toll in the thousands.⁹¹ In an effort to end the civil war, the Organization for African Unity (OAU) mediated a peace agreement,⁹² the Arusha Peace Accords, between the Rwandan government, headed by President Habyarimana, and the RPF in 1993.⁹³

86. Maguire, *supra* note 4, at 57.

87. *Rwanda Timeline*, *supra* note 69 (Gregoire Kayibanda, a Hutu, became president of independent Rwanda).

88. Samantha Powers, *Bystanders to Genocide*, THE ATLANTIC MONTHLY, Sept. 2001, available at <http://www.mtholyoke.edu/acad/intrel/power.htm> (last visited Apr. 9, 2005).

89. *Id.* The situation was quite the opposite, however, in Burundi, Rwanda's neighboring country. Maguire, *supra* note 4, at 58. From 1966–1983, Tutsi ruled Burundi and the Hutu were subject to persecution and periodic killing. *Id.*

90. L. Danielle Tully, Note, *Human Rights Compliance and the Gacaca Jurisdictions in Rwanda*, 26 B.C. INT'L & COMP. L. REV. 385, 388 (2003).

91. Maguire, *supra* note 4, at 57. During the civil war of the 1990s France provided the Hutu regime with military support. See generally PHILIP GOUREVITCH, WE WISH TO INFORM YOU THAT TOMORROW WE WILL BE KILLED WITH OUR FAMILIES (1998) (discussing French action in Rwanda).

92. S.C. Res. 872, U.N. SCOR, 48th Sess., 3288th mtg. ¶ 5, U.N. Doc. S/RES/872 (1993).

93. See Peace Agreement Between the Government of the Republic of Rwanda and the Rwandese Patriotic Front, Aug. 4, 1993 [hereinafter Arusha Peace Accords].

Under the Arusha Peace Accords, there was to be power sharing among the Rwandan government, the RPF and other newly-formed political parties under a transitional government that would govern until democratic elections were held.⁹⁴ The United Nations established a neutral force, the U.N. Assistance Mission for Rwanda (UNAMIR), to assist in the implementation of the peace agreement and to supervise the establishment of a new government and elections by December 1995.⁹⁵ Hutu extremists, however, refused to accept the terms of the peace agreement and initiated a plan of terror against Tutsis and Hutu moderates who supported the agreement.⁹⁶

3. Genocide

In April 1994, the fragile state of security in Rwanda was destroyed literally overnight when President Habyarimana and President Ntaryamira of Burundi, who were returning from a peace conference, were killed when their plane was shot down.⁹⁷ Within hours of President Habyarimana's death, the Rwandan Armed Forces (FAR) and Hutu militia groups⁹⁸ embarked on a systematic killing spree targeting Tutsis, politically moderate Hutus who supported the peace agreement, peacekeepers and human rights activists.⁹⁹ Although the 1994 genocide was the result of a carefully planned attack organized by the Rwandan Presidential Guard, who reportedly prepared lists of targets in advance, the violence soon spread and the civilian population,

94. Protocol of Agreement on Power-Sharing within the Framework of a Broad-Based Transitional Government Between the Government of the Republic of Rwanda and the Rwandese Patriotic Front, Oct. 30, 1992, arts. 14, 23(1) [hereinafter Arusha Protocol].

95. S.C. Res. 872, *supra* note 92, ¶¶ 2–3, 6.

96. Powers, *supra* note 88.

97. *Frontline: The Triumph of Evil: 100 Days of Slaughter: A Chronology of U.S./U.N. Actions* (1999), at <http://www.pbs.org/wgbh/pages/frontline/shows/evil/etc/slaughter.html> (last visited Mar. 6, 2005).

98. Tully, *supra* note 90, at 388. The Interahamwe, “Those Who Attack Together,” and the Impuzaamugambi, “Those With a Single Purpose,” were trained by extremist Hutus in Rwanda to help carry out the genocide. *Id.*

99. Powers, *supra* note 88 (among the first victims was Prime Minister Agathe Uwilingiyimana who became head of state after President Habyarimana's death).

encouraged by Hutu-controlled radio stations,¹⁰⁰ also took part in the attacks.¹⁰¹ By July 1994, however, the RPF had defeated Hutu extremists and established a new government, the Government of National Unity, thus bringing the genocide to an end.¹⁰²

4. Post-Genocide

Following the genocide, Rwanda entered a period of reconstruction. Former President Habyarimana's political party, the Mouvement Republicain Nationale pour la Democratie (MRND), was outlawed¹⁰³ and new mechanisms were created to prosecute those responsible for genocidal acts.¹⁰⁴ To demonstrate its commitment to establishing a multi-ethnic government under the Arusha peace agreement, the new government chose Pasteur Bizimungu, a Hutu, to be President and a majority of cabinet posts were assigned to members of the Tutsi-dominated RPF.¹⁰⁵ In spite of this action, however, the new government was clearly Tutsi-dominated.

100. See Jamie Frederic Metz, *Rwandan Genocide and the International Law of Radio Jamming*, 91 AM. J. INTL L. 628 (1997). Radio-Television Libre des Milles Collines (RTL) was a semi-private station founded by Hutu extremists that would broadcast propaganda against Tutsis and moderate Hutus. *Id.* at 631. The broadcasts were designed to incite attacks against individuals who were identified and criticized on the air. *Id.* During the genocide, RTL broadcast the names of targets as well as the license plate numbers of specific vehicles said to contain "accomplices." *Id.*

101. Peacock, *supra* note 68, at 916. It is estimated that approximately 500,000 Tutsis were killed as a result of the 1994 genocide. HUMAN RIGHTS WATCH WORLD REPORT 2003: RWANDA [hereinafter HUMAN RIGHTS RWANDA REPORT], at <http://www.hrw.org/wr2k3/africa9.html> (last visited Mar. 6, 2005).

102. Tully, *supra* note 90, at 389. Following the RPF's victory, an estimated two million Hutus fled the country. *Rwanda: How the Genocide Happened*, *supra* note 76.

103. U.S. DEP'T OF STATE, RWANDA HUMAN RIGHTS PRACTICES 1995, Mar. 1996, at <http://www.state.gov/r/pae/ei/bgn/2861.htm> (last visited Mar. 6, 2005).

104. Organic Law 8/96, arts. 19–23 (1996) (Rwanda), available at <http://preventgenocide.org/law/domestic/rwanda.htm> (last visited Mar. 6, 2005) (The Rwandan government created special chambers within the existing courts to deal exclusively with genocide cases. In addition, four categories were established to separate criminals with different degrees of responsibility.).

105. Peacock, *supra* note 68, at 918.

The RPF's political philosophy consisted of the notion that a "true democracy" could only be achieved through public participation in public affairs and the eradication of ethnicity.¹⁰⁶ Because ethnic discrimination was used to legitimize political power, the RPF ideology aimed to eliminate ethnicity from the political arena.¹⁰⁷ The Rwandan government implemented political policies designed to control the actions of political parties that were justified by the need to ensure that the opposition did not foster ethnic division.¹⁰⁸ Most notably, political organizing was banned until 1999.¹⁰⁹ Although the motivation for these policies may have been justified given the highly politicized environment surrounding the genocide, the result was that many political freedoms were restricted, thus undermining the RPF ideology of public participation in political affairs.

In April 2000, Paul Kagame, the Tutsi leader of the RPF, became president when President Bizimungu resigned.¹¹⁰ Former President Bizimungu, who openly criticized his colleagues for being unnecessarily harsh on the opposition, was essentially forced to relinquish his post.¹¹¹ The following year, he and former Minister Charles Ntakirutinka formed a new political party that was promptly declared illegal by the government.¹¹² In April 2001, Bizimungu was arrested and imprisoned for engaging in illegal political activities and fostering ethnic divisions.¹¹³

106. INT'L CRISIS GROUP, "CONSENSUAL DEMOCRACY" IN POST-GENOCIDE RWANDA: EVALUATING THE MARCH 2001 DISTRICT ELECTIONS 3 (2001) [hereinafter ICG REPORT 1], at http://www.crisisgroup.org/library/documents/report_archive/A400453_09102001.pdf (last visited Apr. 6, 2005).

107. *Id.*

108. *Id.* at 4.

109. U.S. DEP'T OF STATE RWANDA REPORT, *supra* note 82.

110. BBC News, *Profile: Rwanda's Strongman* (Aug. 27, 2003) [hereinafter *Rwanda Profile*], at <http://news.bbc.co.uk/1/hi/world/africa/3170451.stm> (last visited Mar. 6, 2005). (Born in Rwanda, Paul Kagame grew up in Uganda and had been a soldier for most of his life. In 1979, he joined the National Resistance Army (NRA) in Uganda where he was a guerilla soldier before he was made head of military intelligence. Kagame along with his friend, Fred Rwigyema, helped establish the RPF.)

111. *Id.*

112. HUMAN RIGHTS RWANDA REPORT, *supra* note 101. The political party, PDR-Ubuyanja, was declared illegal although there was no controlling law permitting the government to declare its illegality. *Id.*

113. *Id.*

In November 2000, the National Electoral Commission (NEC)¹¹⁴ was formed to supervise the March 2001 district elections in which the Rwandan government's decentralization policy¹¹⁵ would be put into practice. The NEC, which was given considerable authority, is officially responsible for preparing, organizing and conducting elections, which includes establishing district and provincial electoral commissions to prepare for elections at the local level.¹¹⁶ Its primary objective, however, is to ensure that elections are free and transparent.¹¹⁷ The 2001 district elections were perceived as an important step in the transition process.¹¹⁸ Although there were very few reports of electoral misconduct, the tight political control exercised by the RPF over the elections prevented it from being a democratic process.¹¹⁹ International monitors observed that voters generally selected candidates whom they believed the influential members of the community would support.¹²⁰ In addition, the NEC, which approved the final selection of candidates, used its power to veto candidates who did not support government policies.¹²¹ In spite of the doubts as to the existence of a real choice for Rwandan voters, the 2001 district elections were considered a substantial step towards democracy.¹²²

III. SOURCE OF OBLIGATION TO HOLD FREE AND FAIR ELECTIONS

As discussed in the introduction, the international legal community has recognized an emerging right to democratic

114. The Arusha Peace Accords stipulated that an independent Electoral Commission had to guarantee the organization of free and fair elections. Arusha Protocol, *supra* note 94, art. 24(c).

115. Having identified an overly centralized state as one of the primary causes of the 1994 genocide, the Rwandan government adopted a policy of "consensual democracy" in which the country was divided into districts that were to be run at the administrative level through collective decision-making. See ICG REPORT 1, *supra* note 106, at 3-5.

116. National Electoral Commission, at [http://www.comelena.gov.rw/index eng.htm](http://www.comelena.gov.rw/index.eng.htm) (last visited Apr. 14, 2005).

117. See RWANDA CONST. art. 180 (2003).

118. ICG REPORT 1, *supra* note 106, at ii.

119. *Id.* at iii.

120. *Id.* at 19.

121. *Id.* at iii.

122. *Id.* at 20.

governance.¹²³ Thomas Franck, the legal scholar who first introduced this theory, argues that democratic entitlement has become an international norm.¹²⁴ Therefore, countries seeking legitimacy internationally must conform to the norms of the international community.¹²⁵ In order to conform to this norm, countries must govern with the consent of their citizens.¹²⁶ This is especially important in countries emerging from transitional periods where validation by the international community is paramount.¹²⁷

According to Franck, self-determination, an internationally-guaranteed human right, is the primary basis of democratic entitlement.¹²⁸ Franck interprets the right to self-determination as the right of “peoples in all states to free, fair and open participation in the democratic process of governance freely chosen by each state.”¹²⁹ Democracy can be defined as involving three central rights: “the right to take part in government, the right to vote and be elected, and the right to equal access to public service.”¹³⁰ Thus, free and fair elections are crucial elements of democratic governance.

“Free and fair elections” is the general term used to describe the international standard for political participation in governance.¹³¹ The right to such elections, however, presupposes the existence of other human rights, such as freedoms of expres-

123. Franck, *supra* note 5, at 46–47.

124. *Id.* at 47.

125. *Id.* at 48.

126. *Id.* at 46.

127. See OAS Charter, *supra* note 8 (“representative democracy is an indispensable condition for [the] stability, peace and development...”). See also Franck, *supra* note 5, at 50. Franck also notes that election monitoring can be particularly useful where there is doubt as to the legitimacy of a regime. *Id.* at 75.

128. *Id.* at 52.

129. *Id.* at 59 (Although the meaning of self-determination has different interpretations in international law, Franck interprets it as a peoples’ right to inclusion in their government’s politics rather than the right of a people to become an independent state).

130. Muna Ndulo, *The Democratization Process and Structural Adjustment in Africa*, 10 IND. J. GLOBAL LEG. STUD. 315, 334 (2003).

131. Ibrahim J. Gassama, *Safeguarding the Democratic Entitlement: A Proposal for United Nations Involvement in National Politics*, 30 CORNELL INT’L L.J. 287, 294 (1997).

sion, thought, assembly and association.¹³² Moreover, the holding of free and fair elections may not always be sufficient if the candidates are not truly committed to democracy.¹³³ However, free and fair elections may serve as “evidence of consent to the process by which a populace is consulted by its government.”¹³⁴ Thus, free and fair elections legitimize governance.

Evidence of the right to democratic governance can be found in both international customary law and treaties. Because countries are required to conform their laws to their international obligations, evidence of an obligation to hold free and fair elections can also be found in the domestic law of Nigeria and Rwanda.

A. Customary International Law

A basis for the right to democratic governance can be found in customary law. Customary law results from the practice of states that are followed out of a sense of legal obligation, or *opinio juris*.¹³⁵ As of 1991, more than 110 governments are legally committed to permitting multi-party, secret ballot elections.¹³⁶ Furthermore, as of 2003, more than three-quarters of African countries have adopted democratic systems of governance.¹³⁷ The existence of a rule of customary international law is generally more difficult to confirm because it is not codified in a single binding document. However, evidence of customary law can be found in the practice of states such as governmental acts and official statements of policy.¹³⁸ Furthermore, treaties may also constitute evidence of customary law if they are widely accepted.¹³⁹

The UN has become increasingly involved in promoting democracy. In 1993, the UN Security Council authorized member

132. See Susan Marks, *The End of History? Reflections on Some International Legal Theses*, 8 EUR. J. INT'L L. 449, 458 (1997), available at <http://www.ejil.org/journal/Vol8/No3/index.html> (last visited Mar. 6, 2005).

133. *Id.*

134. *Id.*

135. Restatement (Third) on Foreign Relations Law § 102(2), cmt. c [hereinafter Restatement].

136. Franck, *supra* note 5, at 47.

137. Ndulo, *supra* note 130, at 318.

138. Restatement, *supra* note 135, § 102 cmt. b.

139. *Id.* § 102(3).

states to use force to restore the democratic government in Haiti.¹⁴⁰ Aside from this Security Council resolution, UN action has been primarily in the form of electoral assistance. From 1991 to 2001, the UN received requests for electoral assistance from no less than fifty-three countries, including Nigeria and Rwanda.¹⁴¹ These UN actions reflect the theory that democratic entitlement is an international norm. UN General Assembly Resolutions also provide evidence supporting a legal right to democratic governance. Although General Assembly Resolutions are not binding, if passed with overwhelming support they may constitute strong evidence of customary law.

The Universal Declaration of Human Rights, for example, was passed with overwhelming support in 1948.¹⁴² Although this resolution does not have the force of a treaty, over the years it has gained such esteem that it may constitute a customary rule of international law.¹⁴³ It articulates a right to political participation and states “[t]he will of the people shall be the basis of the authority for the government.”¹⁴⁴ It further states “this will shall be expressed in periodic and genuine elections which shall be by universal and equal suffrage.”¹⁴⁵ It also articulates rights that are essential components of democratic entitlement, such as freedoms of opinion, expression,¹⁴⁶ assembly and association.¹⁴⁷

More recent resolutions reinforce the notion that a right to democratic governance exists and that free and fair elections are a necessary element of democracy. In 1991, the General Assembly adopted a resolution entitled “Enhancing the Effectiveness of the Principle of Periodic and Genuine Elections.”¹⁴⁸ This resolution was committed to enhancing the UN’s role in

140. Ndulo, *supra* note 130, at 336.

141. *Enhancing the Effectiveness of the Principle of Periodic and Genuine Elections: Report of the Secretary-General*, U.N. GAOR, 56th Sess., Annex 1, Agenda Item 131(b), U.N. Doc. A/56/344 (2001).

142. See Franck, *supra* note 5, at 61.

143. *Id.*

144. Universal Declaration on Human Rights, art. 21, G.A. Res. 217A(III), U.N. GAOR, 3d Sess., U.N. Doc. A/810 (1948).

145. *Id.*

146. *Id.* art. 19.

147. *Id.* art. 20.

148. See G.A. Res. 45, U.N. GAOR, 69th Plenary mtg., U.N. Doc. A/RES/45/150 (1990).

the electoral process, especially in countries seeking to strengthen their electoral systems.¹⁴⁹ In 2001, a resolution called upon states to encourage democracy through the “development of ... an electoral system that ensures periodic, free and fair elections.”¹⁵⁰ It further expressed its commitment to the “process of democratization of States.”¹⁵¹

B. Treaties

Additional evidence of the right to democratic governance can be found in treaties in which the right to political participation has been codified. The terms of a treaty are legally binding on its signatories and the parties must implement and enforce domestic laws to conform to their treaty obligations.¹⁵² Both Rwanda and Nigeria are signatories without qualifications to the International Covenant on Civil and Political Rights (ICCPR)¹⁵³ and the African Charter on Human and People's Rights (African Charter).¹⁵⁴ Additionally, both are parties to the International Covenant on Economic, Social and Cultural Rights (ICESCR), however, only Nigeria is a signatory without reservation.¹⁵⁵ All three treaties set forth provisions for civil and political freedom for all people.

The ICCPR, one of the most important multilateral human rights treaties, was ratified in 1966.¹⁵⁶ Nigeria became a party in 1993¹⁵⁷ and Rwanda did so in 1975.¹⁵⁸ The right to political

149. *See id.* ¶ 9.

150. *Promoting and Consolidating Democracy*, U.N. GAOR 3d Comm., 55th Sess., 81st Plenary mtg. ¶ 1(a), U.N. Doc. A/RES/55/96 (2001).

151. *Id.* at 2.

152. Vienna Convention on the Law of Treaties, *entered into force* Jan. 27, 1980, arts. 26–27, 1155 U.N.T.S. 331, 338 [hereinafter Vienna Convention]. (Nigeria became a party on July 31, 1969 and Rwanda became a party on Jan. 3, 1980. Both are signatories without qualifications.)

153. International Covenant on Civil and Political Rights, *opened for signature* Dec. 16, 1966, art. 25(a), 999 U.N.T.S. 85, 273, 275 [hereinafter ICCPR].

154. African Charter on Human and People's Rights, *adopted* June 27, 1981, art. 13, 1520 U.N.T.S. 217, 263, 266 [hereinafter African Charter].

155. International Covenant on Economic, Social and Cultural Rights, *adopted* Dec. 16, 1966, art. 1(1), G.A. Res. 2200A(XXI), 21 U.N. GAOR Supp. (No. 16) at 49, U.N. Doc. A/6316 (1966), 993 U.N.T.S. 3, 69 [hereinafter ICESCR].

156. ICCPR, *supra* note 153, 999 U.N.T.S. at 171.

157. *Id.* at 273.

158. *Id.* at 172 n.1.

participation is evident in Article 25, which provides that all people have the right to take part in the conduct of public affairs, directly or through freely chosen representatives.¹⁵⁹ The ICCPR further provides that there will be “genuine periodic elections” that demonstrate the “free expression of the will of the electors.”¹⁶⁰ Thus, free and fair elections are an integral part of the right to political participation. Furthermore, the ICCPR guarantees certain fundamental human rights, such as freedoms of thought,¹⁶¹ expression¹⁶² and association,¹⁶³ which are the underpinnings of a free and fair election.

The African Charter was ratified in 1981¹⁶⁴ and both Nigeria and Rwanda became parties to it in 1983.¹⁶⁵ The Charter is committed to the promotion and protection of people’s rights and freedoms, including civil and political rights.¹⁶⁶ Evidence supporting a right to democratic governance can be found in Article 13, which states “every citizen shall have the right to participate freely in the government of his country, either directly or through freely chosen representatives.”¹⁶⁷ Thus, citizens have the right to vote and be elected. Finally, the African Charter guarantees certain human rights whose existence are a necessary component of holding free and fair elections, such as freedoms of association¹⁶⁸ and assembly.¹⁶⁹

Additionally, both Nigeria and Rwanda are parties to the ICESCR¹⁷⁰ which states that “[a]ll peoples have the right to self-determination” and that “[b]y virtue of that right they freely determine their political status.”¹⁷¹ While there is no specific provision articulating the right to political participation, according to Franck’s interpretation, self-determination entails free, fair and open participation in the democratic process of govern-

159. *Id.* at 179.

160. *Id.* art. 25(b).

161. *Id.* art. 18.

162. *Id.* art. 19(2).

163. *Id.* art. 22.

164. African Charter, *supra* note 154, 1520 U.N.T.S. at 217.

165. *Id.* at 245 n.1.

166. *See id.* at 246.

167. *Id.* at 248.

168. *Id.* art. 10.

169. *Id.* art. 11.

170. ICESCR, *supra* note 155, 993 U.N.T.S. at 172 n.1.

171. *Id.* at 173.

ance.¹⁷² Thus, the ICESCR can be read to support a right to democratic governance.

C. Other Evidence

Although Nigeria and Rwanda are not legally bound by treaties to which they are not a party,¹⁷³ the existence of other treaties guaranteeing a right to political participation demonstrates that it is a widely accepted right. The American Convention on Human Rights (American Convention) sets forth provisions guaranteeing the right to political participation.¹⁷⁴ Article 23 states that every citizen has the right to vote and be elected in genuine and periodic elections.¹⁷⁵ This provision is similar to Article 25 of the ICCPR,¹⁷⁶ which further substantiates the theory that democratic governance is customary law. Furthermore, fundamental human rights relating to political participation are also guaranteed, such as freedoms of thought, opinion,¹⁷⁷ association¹⁷⁸ and assembly.¹⁷⁹

Additionally, the Protocol to the Convention for the Protection of Human Rights and Fundamental Freedoms (Protocol) articulates a right to democratic governance.¹⁸⁰ Article 3 states that parties shall hold “free elections...under conditions which will ensure the free expression of the opinion of the people....”¹⁸¹ The European Court of Human Rights has interpreted this to mean that states are required to permit their citizens to participate in free and open elections.¹⁸²

The existing customary law and treaty law make clear that democratic governance is, in fact, an international norm. As an

172. Franck, *supra* note 5, at 52.

173. Restatement, *supra* note 135, § 102(3).

174. See American Convention on Human Rights, *entered into force* July 18, 1978, 1144 U.N.T.S. 143, 145 [hereinafter American Convention].

175. *Id.* at 151.

176. ICCPR, *supra* note 153, 999 U.N.T.S. at 179.

177. American Convention *supra* note 174, 1144 U.N.T.S. at 148–49.

178. *Id.* art. 16.

179. *Id.* art. 15.

180. See Protocol to the Convention for the Protection of Human Rights and Fundamental Freedoms, *entered into force* May 18, 1954, art. 3, 213 U.N.T.S. 262, 264.

181. *Id.* at 264.

182. Franck, *supra* note 5, at 66.

international norm, states are obliged to conform to it.¹⁸³ Furthermore, the failure to conform to this norm constitutes a violation of international law.¹⁸⁴ Thus, countries that hold elections in politically repressive atmospheres marked with electoral fraud have failed to conform to this norm and have violated international law.

IV. EVIDENCE OF THE FAILURE TO FULFILL OBLIGATIONS

As discussed above, there is evidence supporting the existence of an international obligation to hold free and fair elections. While interpretations as to what constitutes free and fair may differ,¹⁸⁵ it is clear that “elections cannot be merely used to lend authority to borderline authoritarian regimes.”¹⁸⁶ Elections in which the party in power retains its power by manipulation, electoral fraud and intimidation clearly do not satisfy the criteria of free and fair. Furthermore, instances such as these violate the right to democratic governance because the election results do not reflect the will of the people.

The African Charter and the ICCPR, as discussed above, support the existence of a right to democratic governance.¹⁸⁷ As signatories, Nigeria and Rwanda are obligated to conform their domestic laws to fulfill their treaty obligations.¹⁸⁸ Furthermore, Article 26 of the African Charter states that parties have a “duty... to allow the establishment and improvement of appropriate national institutions entrusted with the promotion and protection of rights and freedoms guaranteed by the present Charter.”¹⁸⁹ This part of the Note will examine the political atmosphere surrounding the recent 2003 elections in Nigeria and Rwanda and discuss how these countries failed to fulfill their

183. See Restatement, *supra* note 135, at § 102 (noting that sources of a rule of international law can be “in the form of customary law, by international agreement or by derivation from general principles common to the major legal systems of the world.”).

184. *Id.*

185. Gassama, *supra* note 131, at 294.

186. Amy N. Lippincott, Note, *Is Uganda's “No Party” System Discriminatory Against Women and a Violation of International Law?*, 27 BROOK. J. INT'L L. 1137, 1153 (2000).

187. See *supra* Part III, B.

188. See African Charter, *supra* note 154, art. 1, 1520 U.N.T.S. at 246; ICCPR, *supra* note 153, art. 2(1–2), 999 U.N.T.S. at 173.

189. African Charter, *supra* note 154, art. 26, 1520 U.N.T.S. at 250.

international obligations to hold free and fair elections. It will also examine some of the shortcomings of the national institutions created to ensure that elections are free and fair.

A. Nigeria

The Nigerian government still reflects the ethnic division that has existed since the country achieved independence. All of its military heads of state have come from the Hausa ethnic group, except for General Ironsi and General Obasanjo, the current President of Nigeria.¹⁹⁰ The Presidential lineups reflected the divisions along ethnic lines as they generally consisted of a Northerner with a Southern running mate or vice versa.¹⁹¹ Additionally, the 2003 elections reflected the strong influence the military still has on Nigerian politics. Not only was President Obasanjo's main rival, General Buhari, a former military leader, two of the other candidates who ran for the presidency were also former members of the military.¹⁹²

1. 2003 Elections

Many of the problems that have plagued Nigeria since its first attempt at civilian rule were reflected in the most recent April 2003 elections in which President Obasanjo of the People's Democratic Party (PDP) was re-elected with sixty-two percent of the vote.¹⁹³ The elections were marred by reports of numerous cases of electoral fraud such as underage voting, multiple voting, stuffing ballot boxes, snatching of ballot boxes and falsi-

190. Oko, *Confronting Transgressions*, *supra* note 12, at 117 n.158.

191. EUROPEAN UNION ELECTION OBSERVATION MISSION, NIGERIA FINAL REPORT 9 (2003) [hereinafter EUEOM REPORT], at http://europa.eu.int/comm/external_relations/human_rights/eu_election_ass_observ/nigeria/rep03.pdf (last visited Apr. 1, 2005).

192. Irin Web Special on Nigeria, *supra* note 61 (Maj-Gen. Ike Nwachukwu was a former foreign minister in a previous military government and Emeka Odumegwu-Ojukwu was a colonel in the Nigerian army who led the attempted secession of the eastern region that resulted in the Biafra civil war in 1967).

193. Lara Maupin, Lesson Plan, *Nigeria Elections*, NEWSHOUR EXTRA (2003), at http://www.pbs.org/newshour/extra/teachers/lessonplans/world/nigeria_4-23.html (last visited Mar. 31, 2005). (President Obasanjo's primary opponent, Muhammadu Buhari, a Muslim former military leader, won thirty-two percent).

fication of results.¹⁹⁴ Election observers noted that the established political parties, such as the PDP, were the parties primarily involved in the electoral malpractice.¹⁹⁵ In addition to the controversy surrounding the presidential elections, there were numerous challenges to the elections for state governorship, senator, and legislative seats.¹⁹⁶ This caused some to name the election 2003 “auction, selection or deception 2003.”¹⁹⁷

2. Electoral Law

The Electoral Law of 2002 sets forth numerous provisions governing the electoral process in Nigeria.¹⁹⁸ However, the 2003 elections reflect the inadequacy and inconsistency of many of its provisions.

The Electoral Law does not provide an adequate mechanism for redressing abuses by the INEC and political parties because the only way to challenge an election or election results is by bringing an election petition before the appropriate Election Tribunal.¹⁹⁹ However, only candidates or political parties may

194. EUEOM REPORT, *supra* note 191, at 37.

195. *Id.* at 42.

196. The Lagos State Election Tribunal dismissed Anthony Olufunso Williams' petition challenging his opponent's Bula Tinubu's win and confirmed Tinubu as the governor of Lagos. Innocent Anaba, *Electoral Tribunal Confirms Tinubu's Election*, THE VANGUARD, June 3, 2003. Collins Eselomo challenged the election of Solomon Funkekeme to the State House of assembly citing large-scale irregularities in the election result. *Tribunal Upholds Election of Lawmaker*, DAILY TRUST, Aug. 12, 2003. The Delta State Election Tribunal upheld the election noting that the petitioner did not want to pursue his case. *Id.* Willy Ezugwu challenged the Independent National Electoral Commission's (INEC) declaration of Fidelis Okoro as the senator for Enugu North in the Enugu Election Tribunal. *Tribunal Dismisses INEC's Motion Against Proceedings*, DAILY TRUST, Aug. 8, 2003.

197. Ahmadu Kurfi, *The 2003 Elections and its Aftermath at* http://www.nigerdeltacongress.com/articles/2003_elections_and_its_aftermath.htm (last visited Apr. 1, 2005).

198. *See generally* Electoral Law (2002) (Nig.).

199. *Id.* § 131(1). The appropriate Election Tribunal for Presidential elections is the Court of Appeals; for all other elections petitions must be brought before the Election Tribunal established by the Electoral Law. *Id.* § 131(2). *See also* § 134(1) (“[a]n election may be questioned on any of the following grounds... (b) that the election was invalid by reason of corrupt practice or non compliance with the provisions of this Act; (c) that the respondent was not duly elected by majority of lawful votes cast at the election.”).

bring these petitions.²⁰⁰ Voters may file a complaint with the Public Complaints Commission, but this institution has no method of enforcing any of its findings.²⁰¹ Thus, those who are most affected, the voters, do not have an adequate means of redress.

Section 36 of the Electoral Law provides that each party may have representatives at each polling station for which they have a candidate.²⁰² However, there is no limit to the number of agents who may be present, which facilitated harassment of voters by party agents. For example, PDP Party agents were observed checking the ballots before putting them into ballot boxes.²⁰³ At another polling station, a PDP agent was observed specifically telling a voter to vote for General Obasanjo.²⁰⁴

The Electoral Law does not provide a strict method for publication of election results. Section 61 has been interpreted as not requiring that results be posted publicly while votes are being counted.²⁰⁵ Thus, electoral officers simply declared the winners without issuing any public notice.²⁰⁶ However, the method of counting as well as the time it took raised doubts as to the validity of the results.²⁰⁷ Furthermore, election observers, as well as some political parties, were unable to obtain a breakdown of the results.²⁰⁸ The concerns of credibility were verified when election observers, after piecing together information, produced figures that were unrealistic given the actual number of registered voters compared to the number of votes counted.²⁰⁹

3. INEC

Although the INEC is primarily responsible for ensuring that elections are free and fair, it suffers from several structural and administrative defects that prevent it from fulfilling its responsibilities. In addition, the INEC's dependence on the govern-

200. *Id.* § 133(1)(a)–(b).

201. EUEOM REPORT, *supra* note 191, at 14.

202. Electoral Law § 36 (2002) (Nig.).

203. EUEOM REPORT, *supra* note 191, at 36 n.27.

204. *Id.* (The polling station was located in Bokkos, LGA.).

205. *Id.* at 31.

206. *Id.*

207. *Id.*

208. *Id.*

209. *Id.*

ment prevents it from operating as an independent institution. Given the INEC's apparent acquiescence in the reported instances of electoral fraud, it is clear that the INEC is not operating as the independent, unbiased, neutral entity that it was created to be.

The basic structure of the INEC reflects its dependence on the government. The INEC is composed of twelve commissioners and a chairman who are directly appointed by the President with the approval of the Council of State.²¹⁰ The Resident Electoral Commission (REC) administers INEC functions at the state level and each state office is headed by a Resident Electoral Commissioner who is also directly appointed by the President but without the approval of Senate.²¹¹

Furthermore, the INEC depends on the government for its funding. The INEC's budget must be approved before any funds are allocated.²¹² In addition, there appears to be no distinction between operational budgets and electoral budgets.²¹³ Thus, the provisions governing the appointment of electoral commissioners, as well as the lack of independent funding, do not adequately guarantee the independence of the INEC.

The INEC, which is authorized to issue specific guidelines, failed to do so in areas that need the most regulation, such as campaign and political party financing. The Electoral Law provides for a threshold of twenty Nairas in campaign expenditures per registered voter.²¹⁴ However, PDP party members were observed distributing hundreds of new bicycles to potential voters.²¹⁵ In other areas, outright bribery of voters by PDP agents was observed.²¹⁶

Furthermore, the guidelines issued by the INEC were overly restrictive and, thus, prevented many political parties from registering. In late 2002, the Supreme Court of Nigeria ruled that the guidelines were too restrictive and overturned them.²¹⁷ As a

210. NIG. CONST. 3rd sched. § 6(a)(iv). *See also* EUEOM REPORT, *supra* note 191, at 17.

211. NIG. CONST. 3rd sched. § 14(2)(a).

212. EUEOM REPORT, *supra* note 191, at 18.

213. *Id.*

214. Electoral Law § 84 (2002) (Nig.).

215. EUEOM REPORT, *supra* note 191, at 27 n.16.

216. *Id.* at 34 n.23.

217. *Id.* at 13.

result of this ruling, twenty-six parties registered for the elections.²¹⁸ However, these parties did not have adequate time to prepare for the elections and consequently were at a disadvantage to the incumbent political parties.

The failure of the INEC to adhere to and interpret the electoral law was a significant shortcoming in the 2003 elections. Furthermore, the flagrant disregard of electoral procedures by polling and party agents undermined the democratic foundation of the electoral process. The Nigerian government has emerged from a long period of military rule in which democracy was nothing more than a facade. While there have been substantial improvements since the return to civilian rule, elections marred by widespread patterns of electoral fraud such as these fail to meet the international criteria for free and fair elections. Thus, Nigeria has failed to meet its international obligation to hold free and fair elections.

B. Rwanda

Since the RPF has been in power, the distinction between it and the government has become practically non-existent.²¹⁹ As a result it has been able to enjoy a prominence in politics. Part of the RPF's power lies in the fact that it was the party that essentially ended the genocide.²²⁰ As a result of this authority, challenges to the RPF are often viewed as challenges to national unity. In fact, any political party that has attempted to challenge RPF power has been effectively silenced by accusations of promoting ethnic divisions,²²¹ creating an atmosphere of political repression. While the desire to exert strict control over the political process is desirable given the tragic events of the

218. *Id.*

219. NAT'L DEM. INST. FOR INT'L AFFAIRS, ASSESSMENT OF RWANDA'S PRE-ELECTION POLITICAL ENVIRONMENT AND THE ROLE OF POLITICAL PARTIES 4 (Aug. 3–11, 2003) [hereinafter NDI REPORT], at http://www.accessdemocracy.org/library/1642_rw_assessment_092203.pdf (last visited Apr. 1, 2005).

220. See Toby Manhire, *What They Said About the Vote in Rwanda*, THE GUARDIAN, Aug. 28, 2003 ("Mr. Kagame derives moral authority from the fact that he is the leader of the group that single-handedly stopped the genocide.").

221. Article 33 of the Rwanda Constitution states "[p]ropagation of ethnic, regional, racial or discrimination or any other form of division is punishable by law." RWANDA CONST. art. 33 (2003).

1994 genocide, “democracy depends on certain values, such as tolerance and trust....”²²² Thus, in order for the process of democratization to fully take effect in Rwanda, the RPF must open the political arena to its opposition.

1. 2003 Elections

In August 2003, the first multi-party elections were held since the 1994 genocide. Incumbent President Kagame won the presidency with approximately ninety-five percent of the vote.²²³ Although the NEC proclaimed the elections free and fair, many election monitors and international observers were skeptical about the election results.²²⁴ European Union (EU) election monitors reported that President Kagame’s representatives controlled many of the voting stations and intimidated electoral officials and voters.²²⁵ At some polling stations the monitors claimed that they were simply denied access.²²⁶ The Amani Forum, another team of observers from the Great Lakes Region in Africa, reported that it was “difficult to say that the elections were free and fair.”²²⁷

222. Ndulo, *supra* note 130, at 341.

223. Although there are small discrepancies in the percentage of votes cast for President Kagame, it appears that 95% is the most accurate. BBC News, *Rwandan President Claims Landslide* (Aug. 26, 2003) [hereinafter *Rwandan President*], at <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/1/hi/world/africa/3178611.stm> (94%) (last visited Apr. 1, 2005); Arthur Asiiimwe, *Small Parties to Back RPF Again*, ALL AFRICA, Sept. 3, 2003 (95%); *Supreme Court Confirms Kagame’s Victory*, PANAFRICAN NEWS AGENCY (PANA) DAILY NEWSWIRE, Sept. 4, 2003 [hereinafter *Kagame’s Victory*] (95.05%).

224. Amnesty International issued a press release stating that the RPF continually harassed opposition supporters and engaged in unlawful tactics in order to silence the opposition or force members to join the RPF. AMNESTY INT’L, PRESS RELEASE, RWANDA: RUN-UP TO PRESIDENTIAL ELECTIONS MARRED BY THREATS AND HARASSMENT, (AI Index: AFR 47/010/2003) (Aug. 22, 2003) [hereinafter AMNESTY INT’L PRESS RELEASE], available at <http://web.amnesty.org/library/Index/ENGAFR470102003> (last visited Apr. 9, 2005); Grace Matsiko & Geoffrey Kamali, *A Look at Kagame’s Landslide Win*, ALL AFRICA, Sept. 3, 2003.

225. Matsiko & Kamali, *supra* note 224 (Colette Flesch was head of the European Union delegation that monitored the elections).

226. *Id.*

227. *Id.* (The Amani Forum is made up of members of Parliament from the Great Lakes Region).

Faustin Twagiramungu,²²⁸ President Kagame's primary opponent, petitioned the Supreme Court to nullify the election results.²²⁹ During the campaign, Twagiramungu was forced to run as an independent after his political party, Democratic Republican Movement (MDR), was banned for allegedly promoting politics based on ethnicity.²³⁰ He claimed that the RPF engaged in intimidation tactics to pressure voters into voting for Kagame.²³¹ He also cited incidents of vote-rigging and violations of the electoral law.²³² On September 3, 2003 the Supreme Court upheld the results of the presidential elections.²³³ The Court dismissed Twagiramungu's petition after ruling that his petition was not supported by material evidence.²³⁴ Although this may have been true, the fact that the President of the Supreme Court is an RPF member²³⁵ certainly raises doubts as to the impartiality of the Court's ruling.

2. Constitutional Violations

In 2003, a new constitution was approved in Rwanda. Article 52 recognizes a multi-party system of government.²³⁶ Thus, the norm of democratic entitlement is reinforced by the notion that the people must consent to the way they are governed. The recognition of a right to political freedom is also evident in Article 33, which guarantees "freedom of thought, opinion, conscience

228. Twagiramungu was the former Prime Minister of the post-genocide government. He resigned due to differences with the RPF and spent eight years in exile in Belgium. Robert Walker, *Profiles: Kagame's Opponents*, BBC NEWS (Aug. 22, 2003), at <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/1/hi/world/africa/3174211.stm>.

229. BBC NEWS, *Rwanda Poll Challenge Rejected* (Sept. 2, 2003) [hereinafter *Rwanda Poll*] at <http://news.bbc.co.uk/1/hi/world/africa/3201931.stm>.

230. AMNESTY INT'L PRESS RELEASE, *supra* note 224.

231. Asimwe, *supra* note 223; see also *Rwanda Poll*, *supra* note 229.

232. Asimwe, *supra* note 223.

233. *Rwanda Poll*, *supra* note 229.

234. *Kagame's Victory*, *supra* note 223.

235. In addition to Simeon Rwagasore, the President of the Supreme Court, the leaders of the judicial fora, both courts and tribunals, were RPF members. INT'L CRISIS GROUP, RWANDA AT THE END OF THE TRANSITION: A NECESSARY POLITICAL LIBERALISATION, App. E, (2002) [hereinafter ICG REPORT 2], at http://www.crisisgroup.org/library/documents/report_archive/A400453_09102001.pdf (last visited Apr. 6, 2005).

236. RWANDA CONST. art. 52 (2003).

and the public manifestation thereof.”²³⁷ The 2003 elections, however, reflect that the democratic process was undermined by the numerous violations of constitutional provisions.

Under the Constitution, citizens are guaranteed the right to freedom of expression and opinion.²³⁸ The campaign period leading up to the election, however, was marred by allegations of “government-sponsored intimidation.”²³⁹ According to Amnesty International, the RPF has routinely used intimidation and violence against the opposition.²⁴⁰ One voter reported that when he attempted to vote for another candidate, an RPF supporter grabbed his ballot and told him “not to waste his time.”²⁴¹ Incidents such as this indicate that the government has not respected this fundamental constitutional right.

Article 53 of the Constitution provides that citizens are free to join or not join political organizations.²⁴² During the campaign period, the RPF reportedly used coercion to force people to attend its rallies.²⁴³ In addition, many opposition supporters were detained and released only after agreeing to announce their support for the RPF.²⁴⁴ The fact that six of the eight political parties in Rwanda supported President Kagame²⁴⁵ lends credence to the allegation that the opposition was intimidated. At the very least, it is strong evidence of the RPF’s control over the government.

While freedom of association is guaranteed by the Constitution, this right, like others, may be limited to maintain national security.²⁴⁶ Consequently, this right remained suspended during the entire transitional period. When the law governing po-

237. *Id.* art. 33.

238. *Id.*

239. *High Turnout as People Vote in First Election Since Genocide*, THE VANGUARD, Aug. 27, 2003. See also Guy Selassie, *Election 2003: Incumbent Wins Ballot, Loses Credibility in Rwandan Poll*, WORLD MARKET ANALYSIS, Aug. 27, 2003.

240. AMNESTY INT’L PRESS RELEASE, *supra* note 224.

241. BBC News, *Rwanda Poll Splits African Press* (Aug. 28, 2003), at <http://newsvote.bbc.co.uk/mpapps/pagetools/print/news.bbc.co.uk/1/hi/world/af-rica/3187949.stm> (last visited Mar. 26, 2005).

242. RWANDA CONST. art. 53 (2003).

243. AMNESTY INT’L PRESS RELEASE, *supra* note 224.

244. *Id.*

245. Asiimwe, *supra* note 223.

246. RWANDA CONST. arts. 35, 43 (2003).

litical organizations was enacted on June 26, 2003,²⁴⁷ political parties and candidates had two months to organize and begin campaigning. Political organizing, however, is still prohibited on the local level making it difficult for the opposition to garner support.²⁴⁸ The opposition could hardly compete with the unfair advantage that the RPF had, because the RPF was the only party permitted to function when political organizing was banned.

In addition, it appears that the RPF enjoyed many advantages that the opposition did not during the campaign period. Under the Electoral Law, media time is to be allocated equally among the candidates;²⁴⁹ however, reports indicate that the RPF was granted considerably more time on the airwaves.²⁵⁰ Although the NEC president reported that the RPF was the only party that had held public rallies in nearly every province,²⁵¹ allegations that the RPF coerced people into attending its rallies undermine this declaration of RPF popularity.²⁵²

Although Article 34 of the Constitution guarantees freedom of press and information,²⁵³ the media is subject to many government-imposed restrictions. Members of the press who have criticized the government, particularly journalists, have continuously faced the threat of imprisonment, detention or exile.²⁵⁴ The only licensed television and radio stations are owned by the government and, thus, subject to its control.²⁵⁵ The government's control over the media may be a result of rampant use of the airwaves to broadcast propaganda during the genocide.²⁵⁶

247. See Organic Law No. 16/2003 Governing Political Organizations and Politicians (2003) (Rwanda).

248. RWANDA CONST. art. 52 (2003); see also NDI REPORT, *supra* note 219, at 2, 4.

249. NDI REPORT, *supra* note 218, at 9.

250. Matsiko & Kamali, *supra* note 224.

251. *NEC Sets Deadline for Submission of Candidate Representatives*, RWANDA INFORMATION EXCHANGE (Aug. 8, 2003), at <http://www.rwanda.net/english/News/news082003/news08082003.htm> (last visited Mar. 26, 2005).

252. NDI REPORT, *supra* note 219, at 4.

253. RWANDA CONST. art. 34 (2003).

254. AMNESTY INT'L, RWANDA REPORT 2003, at <http://web.amnesty.org/report2003/rwa-summary-eng> (last visited Mar. 26, 2005).

255. NDI REPORT, *supra* note 219, at 5.

256. See generally Metz, *supra* note 100, at 628 (discussing how the radio was used to incite ethnic tension in Rwanda).

However, the fact that the RPF appeared to have unlimited access to the media while it restricted the opposition's access undermined the justification for such strict control.

According to the Organic Law Governing Political Organizations and Politicians, the assets of political organizations are to be derived from contributions from members, donations, legacies, its property, activities or state grants.²⁵⁷ While it appeared that other political parties and candidates did not have many resources, the RPF reportedly gave gifts including livestock, t-shirts and memorabilia at its rallies, leading to the conclusion that state resources were being used.²⁵⁸ Although there are no clear rules on the use of government resources for campaigning, Article 32 of the Constitution prohibits the embezzlement of public property.²⁵⁹ If state resources were used, this would be an unconstitutional use of government funds.

3. NEC

The NEC was created to ensure the presence of fair and free elections.²⁶⁰ There are several inherent problems, however, that prevent the NEC from being the independent, neutral institution it was intended to be. The structure of the NEC renders it dependent on the RPF-controlled government, resulting in a strong connection between the government and the NEC. In addition, the NEC has considerable discretion to interpret the electoral law, thus, its policies are very difficult to challenge.

The NEC is composed of a Permanent Secretariat that includes an Executive Secretary and five Deputies who are nominated by the Prime Minister with the approval of Cabinet and the Council of Commissioners elected to serve on the NEC before and after elections.²⁶¹ Because the government is controlled by the RPF, the Permanent Secretariat reflects this political makeup. In addition, the confirmation of District Commissioners can only be made by the Permanent Secretariat which is

257. See Organic Law No. 16/2003 Governing Political Organizations and Politicians art. 21 (2003) (Rwanda).

258. NDI REPORT, *supra* note 219, at 4.

259. RWANDA CONST. art. 32 (2003).

260. See *id.* art. 180.

261. See National Electoral Commission, *supra* note 116; ICG REPORT 1, *supra* note 106, at 12–13.

dominated by the RPF.²⁶² Consequently, most electoral commissioners are RPF supporters. Thus, members of the government may effectively secure their jobs through their appointment of members of the NEC.

Despite the NEC's purported neutrality, there appears to be a strong connection between it and the RPF. For example, in 2002, the President of the Commission and the Executive Secretary were notoriously powerful RPF members and their decisions were often the decisive factor when choosing candidates for local electoral commissions.²⁶³ The current NEC president touted the fact that people were defecting from Twagiramungu's camp at a press conference during the campaign period.²⁶⁴ This raised suspicions that he was acting as a campaign agent for the RPF.²⁶⁵ Given the connection between the NEC and the government, the NEC's neutrality and independence is doubtful.

Another problem is that the NEC has considerable discretion in interpreting and defining the electoral law. Article 45 of the Rwandan Constitution provides that all citizens have the right to participate in government, whether directly or through freely-chosen representatives.²⁶⁶ The Electoral Law provides all electoral candidates are required to be "persons of integrity," yet the law does not provide a definition of integrity.²⁶⁷ Thus, what constitutes integrity is largely left to the discretion of the NEC, which allows the NEC to use this vague qualification as a pretext to prevent certain citizens from participating in government.

In addition, the NEC has the authority to ban any political party that promotes politics based along ethnic lines, a violation under the Electoral Law and the Constitution.²⁶⁸ Art. 38 (1) of the Organic Law Governing Political Organizations and Politi-

262. See National Electoral Commission, *supra* note 116; ICG REPORT 1, *supra* note 106, at 12.

263. ICG REPORT 1, *supra* note 106, at 12 (The former President of the Commission was Protais Musoni and the Executive Secretary was Christophe Bazivamo).

264. Matsiko & Kamali, *supra* note 224.

265. *Id.*

266. RWANDA CONST. art. 45 (2003).

267. ICG REPORT 1, *supra* note 106, at 14.

268. *Id.* at 16; RWANDA CONST. art. 54 (2003).

cians provides that during the campaign period, every politician or political party is obliged to “avoid any speech, writing or any other kind of action based on discrimination or division.”²⁶⁹ Article 54 of the Constitution prohibits political organizations from basing themselves on race or ethnic groups.²⁷⁰ Since 2000, several parties have been exiled on the grounds that they were fostering ethnic divisionism; there appears, however, to be little or no evidence supporting these allegations.²⁷¹ Many suspect that these accusations are a pretext to silence political opponents.²⁷²

Although the Electoral Law provides for appeals to the Supreme Court, the NEC interpreted this to mean that the court provided a forum for allegations of “ballot manipulation” but not for challenges to NEC policies.²⁷³ Individuals may challenge NEC policy by first appealing to the district level, the provincial level, the NEC and then, finally, to the Supreme Court.²⁷⁴ As a result of this lengthy and burdensome process, few complaints are successful.²⁷⁵ Thus, any redress for an abuse of power by the NEC is subject to its own interpretation of the Electoral Law.

The strict political control exercised by the RPF during the pre-election period suggests that the 2003 elections did not truly reflect the will of the people of Rwanda. Furthermore, the repression of the opposition violated treaty obligations to ensure equal access to public service and freedom of association.²⁷⁶

269. Organic Law No. 16/2003 Governing Political Organizations and Politicians art. 38(1) (2003) (Rwanda).

270. RWANDA CONST. art. 54 (2003).

271. As of 2003, approximately eleven political parties were in exile: Rwandan Democratic Alliance (ADR); Alliance for Democracy and National Reconciliation (ADRN IGIHANGO); Alliance for National Regeneration (ARENA); African Democratic Congress (CDA); Congres du Peuple (a party created from the split in the ARENA party); Democratic Forces for the Liberation of Rwanda (FDLR); Resistance Forces for Democracy (FRD); Movement for Peace, Democracy and Development (MPDD); Monarchist Movement (NATION); Democratic Rally for the Return of Refugees (RDR); Union of Rwandan Democratic Forces (UFDR). ICG REPORT 2, *supra* note 235, at 40–41.

272. *Profile: Rwanda's Strongman*, *supra* note 110.

273. ICG REPORT 1, *supra* note 106, at 14.

274. *Id.*

275. *Id.*

276. See e.g., African Charter, *supra* note 153, 1520 U.N.T.S. 217; ICCPR, *supra* note 154, 999 U.N.T.S. 85.

Faced with the difficult task of rebuilding a nation after genocide, the Rwandan government has embarked on a mission to build national unity and rid the country of the ethnic divisions that led to the horrific events of 1994. Although Rwanda's system of consensual democracy is based on public participation in public affairs, in practice, this policy has been used to effectively silence those who do not espouse RPF ideology. By refusing to let the opposition effectively compete, the government has undermined its attempt to hold free and fair elections.

V. CONCLUSION: THE IMPORTANCE OF FREE AND FAIR ELECTIONS

As established above, there is an international norm of democratic governance. Free and fair elections are an indispensable element of democratic governance. The most obvious benefit of holding free and fair elections is democracy.²⁷⁷ Democratic elections are generally defined as elections that are fairly administered, grant equal voting rights to those who qualify to vote, and permit eligible voters to elect and be elected.²⁷⁸ These procedural guarantees ensure that an election is free and fair.²⁷⁹

However, there are other benefits to be derived from holding free and fair elections. One of those benefits is political legitimacy.²⁸⁰ Free and fair elections signify that results reflect the free expression of the will of the people. Thus, those who are elected gain legitimacy. Popular leaders would expect to do well in elections, but when such leaders participate in undemocratic elections and are victorious, they lose legitimacy.²⁸¹ Furthermore, free and fair elections lead to international support. The emerging international norm of democratic governance mandates that only democracy can validate governance.²⁸² Thus, the international community is reluctant to support governments that have come to power undemocratically.

277. Nhan T. Vu, *The Nondemocratic Benefits of Elections*, 28 CASE WEST. RES. J. INT'L L. 395, 395 (1996).

278. *Id.* at 454.

279. *Id.*

280. *Id.* at 455.

281. *Id.* at 459.

282. Ndulo, *supra* note 130, at 336.

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Finally, by holding free and fair elections, countries reinforce their support for human rights. Countries that are parties to human rights treaties have an obligation to enforce those rights. Democratic governance presupposes the existence of fundamental human rights and free and fair elections demonstrate that these rights have been exercised freely.

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* B.A., Fordham University, J.D. Brooklyn Law School (expected June 2005). I would like to thank my family for their support and encouragement throughout my law school years. I would especially like to thank my mother, Helen Corchado, not only for her support but also for her enduring patience.

FILTERING THE SMOKE OUT OF CIGARETTE WEBSITES: A TECHNOLOGICAL SOLUTION TO ENFORCING JUDGMENTS AGAINST OFFSHORE WEBSITES

INTRODUCTION

Under the doctrine of international comity, the courts of most countries will enforce foreign judgments.¹ However, the borderless and global scope of the internet makes extraterritorial enforcement of a judgment against an offshore² website difficult because of the “internet’s ability to cross borders, break down real world barriers, and destroy distance.”³ Under the internet’s architecture, even determining the geographical location of internet users and content providers can prove difficult because the internet was initially designed to not disclose users’ locations.⁴ Thus, smaller actors who operate offshore websites can find both geographical and virtual safe havens⁵ to avoid enforcement of judgments against them.⁶

To illustrate this problem, many cigarette websites operate overseas, making the enforcement of U.S. court judgments against them difficult.⁷ In 2002, Philip Morris USA (Philip Morris) sued Otamedia, a cigarette website operator based in Switzerland, for violations of the Lanham Act⁸ arising from

1. Mark D. Rosen, *Should “Un-American” Foreign Judgments Be Enforced?*, 88 MINN. L. REV. 783, 784 (2004).

2. For purposes of this Note, the term “offshore” means outside of U.S. territory.

3. See Matthew Fagin, *Regulating Speech Across Borders: Technology vs. Values*, 9 MICH. TELECOMM. TECH. L. REV. 395, 404 (2003), available at <http://www.mttlr.org/volnine/Fagin.pdf> (referring to the views of what the author terms “[internet] regulation critics” or “Internet separatists”).

4. *Id.* at 404.

5. The term “safe haven” in this Note refers to either a real-world physical location or a virtual location where enforcing the law is difficult or impossible.

6. See Fagin, *supra* note 3, at 419 (arguing that smaller offshore actors can avoid enforcement of unilateral national regulation of the internet).

7. *Id.*

8. Lanham Act, 15 U.S.C. § 1114 (2000).

Otamedia's unauthorized sale of Philip Morris cigarettes over the internet.⁹ Because Otamedia declined to answer Philip Morris's complaint, a default judgment was entered against Otamedia which enjoined it from selling cigarettes to U.S. consumers.¹⁰ Otamedia ignored the default judgment by continuing to sell cigarettes to U.S. consumers over the internet, and the court modified its order and transferred Otamedia's U.S.-registered domain names,¹¹ yesmoke.com and yessmoke.com to Philip Morris.¹² However, both of these orders proved ineffectual because Otamedia found a virtual safe haven by registering new domain names, yesmoke.ch and yessmoke.ch, in Switzerland and thereby continued selling cigarettes to U.S. consumers from these domain names.¹³ Even if Philip Morris eventually succeeds in obtaining Otamedia's Swiss domain names, hundreds of other cigarette websites still exist.¹⁴ Thus, litigat-

9. Philip Morris USA, Inc. v. Otamedia Ltd., 331 F. Supp. 2d 228, 229 (S.D.N.Y. 2004).

10. *Id.*

11. A "domain name" is a user-friendly alphanumeric address for one or more computers connected to the internet used in lieu of a numeric address for such computers, called an IP address. See COMMITTEE TO STUDY TOOLS AND STRATEGIES FOR PROTECTING KIDS FROM PORNOGRAPHY AND THEIR APPLICABILITY TO OTHER INAPPROPRIATE INTERNET CONTENT, YOUTH, PORNOGRAPHY AND THE INTERNET § 2.1.5 (Dick Thornburgh & Herbert S. Lin eds., 2002) [hereinafter COMMITTEE]. "Registering a domain name" means that the domain name chosen will be associated with a designated computer on the internet. See ICANN, *Frequently Asked Questions*, at <http://www.icann.org/faq/> (last visited May 23, 2005). A "registrant" is the person or entity that registers a domain name of its choosing and designates which computer will be associated with that domain name. See *id.* From that designated computer, the registrant can create a website which will be accessible to internet users around the world. *Id.* A registrant registers a domain name with a "registrar," an entity authorized to register domain names. *Id.* The registrar then transmits its registration information to a "registry," an entity that maintains all official records regarding registrations and implements the conversion from domain name to IP address. DAVID BENDER, COMPUTER LAW § 3D.05(3) (2004).

12. *Philip Morris*, 331 F. Supp. 2d at 247.

13. See Marton Dunai, *Altria Unit Wins Cigarette Vendor's Internet Address*, WALL ST. J., Aug. 25, 2004, at B2 [hereinafter Dunai, *Altria Unit*]; Adam Lisberg, *Feds Stub Out Big Cigs Racket*, N.Y. DAILY NEWS, Nov. 17, 2004, at 35.

14. See Patricia Sellers, *Altria's Perfect Storm*, FORTUNE MAG., Apr. 28, 2003, at 96 (in 2003, Philip Morris counted 536 cigarette websites); see also Philip Morris, *The Illicit Trade in Cigarettes: The Philip Morris International*

ing against each offshore cigarette website seems pointless when the website operators can simply flout U.S. court orders. The current structure of the domain name system (DNS)¹⁵ makes seeking cigarette websites' domain names an impracticable remedy.¹⁶ Therefore, rather than trying to reach offshore cigarette websites or their domain names extraterritorially, the better solution would be to limit access to these websites from within U.S. territory.¹⁷

The rapid development of filtering technology and its employment in enforcing online decency laws and court orders¹⁸ indicates that the use of filtering technology to limit access of U.S. internet users to offshore cigarette websites may provide the most effective means of enforcing judgments against such websites without having to directly reach their conduct abroad.¹⁹ The use of filtering technology has met with some approval from the U.S. Supreme Court,²⁰ Congress²¹ and a French court²² in the context of offensive content on websites. Furthermore,

Perspective, at 9 (2004), available at http://www.philipmorrisinternational.com/global/downloads/OBE/Illicit_trade.pdf ("As of January 2004, there are literally hundreds of internet websites offering to sell tobacco products of every imaginable description.").

15. The "domain name system" refers to the internet naming system that translates numeric IP addresses of computers connected to the internet into an easier-to-remember alphanumeric domain name. See COMMITTEE, *supra* note 11, § 2.3.1.

16. See *infra* Part II.

17. See *infra* Part IV.

18. See *infra* Part III.

19. See *infra* Part IV.

20. See *Ashcroft v. ACLU*, 124 S. Ct. 2783, 2792 (2004) (finding filtering technologies less restrictive on protected speech than the Child Online Protection Act which criminalizes the posting of content on the internet that is harmful to children).

21. Congress declared that it is the policy of the United States "to remove disincentives for the development and utilization of blocking and filtering technologies that empower parents to restrict their children's access to objectionable or inappropriate online material." 47 U.S.C. § 230(b)(4) (2000). Also, Congress passed the Children's Internet Protection Act, which requires libraries to use filtering technology to block obscene material as a condition to receiving federal funds. 47 U.S.C. § 254(h)(6)(B)(i) (2000).

22. See *UEJF et LICRA v. Yahoo! Inc. et Yahoo France*, T.G.I. Paris, Nov. 22, 2000, obs. J. Gomez, translated in <http://www.cdt.org/speech/international/001120yahoofrance.pdf> [hereinafter *Yahoo II*] (finding filtering technology a feasible remedy to block French users from viewing Nazi memorabilia).

the use of filtering technology to prevent only U.S. users from accessing websites that infringe Philip Morris's trademark is consistent with the territoriality principle of trademark law.²³

Part I of this Note explores the rise of cigarette websites and Philip Morris's challenges against them, in particular against Otamedia. Part II analyzes how the current structure of the DNS makes Philip Morris's remedy of obtaining domain names an ineffectual means of enforcing judgments against offshore websites that seek safe havens in bad faith. Part III reviews two prior government-mandated uses of filtering technology, one by a French court ordering Yahoo! to block French users from accessing illegal Nazi memorabilia on Yahoo's auction site, and another by internet service providers (ISPs)²⁴ in Pennsylvania to comply with a state child pornography statute. Part IV proposes a method of implementing a filtering technology regime at the level of domestic ISPs as a fair and efficient means of enforcing judgments against offshore websites when reaching their conduct extraterritorially proves difficult or impossible.

I. THE RISE OF CIGARETTE WEBSITES

In recent years, the retail price of cigarettes in the United States has increased dramatically.²⁵ Between 1997 and 2002, the average price of cigarettes in the United States rose ninety percent.²⁶ In part, this price increase can be attributed to higher taxes on cigarettes.²⁷ Since 2002, twenty-nine states and the District of Columbia have increased their cigarette excise taxes,²⁸ bringing the national average to sixty-five cents per

23. As a general rule, trademark rights do not extend beyond the territory of a nation. See Paris Convention for the Protection of Industrial Properties, July 14, 1967, art. 6(3), 21 U.S.T. 1583 ("A mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of origin.").

24. An ISP is a company which provides other companies or individuals with access to, or presence on, the internet. See Dictionary.com, at <http://dictionary.reference.com/search?q=internet+service+provider>.

25. See Sellers, *supra* note 14, at 96.

26. *Id.*

27. See Noam Neusner, *Tobacco is Becoming the Smuggler's Choice*, U.S. NEWS & WORLD REPORT, Nov. 4, 2002, at 46.

28. John Berlau, *Smoking Out Big Tobacco*, INSIGHT ON THE NEWS, Nov. 25, 2003, at 18.

pack.²⁹ Taxes constitute approximately sixty percent of the total price of cigarettes.³⁰ The recent price increase of cigarettes can also be attributed to civil judgments rendered against the tobacco industry.³¹ The tobacco industry has shifted the cost of its liability for the harmful effects of cigarettes to its consumers.³² For instance, in 1998, the state attorneys general settled their Medicaid reimbursement lawsuits against the major tobacco companies³³ who agreed to pay the states \$254 billion over twenty-five years.³⁴ According to a tobacco analyst, the tobacco companies' payments to the states increased the cost of cigarettes by fifty-six cents per pack.³⁵

With the rising price of cigarettes in the United States, some consumers have turned to the internet to take advantage of lower prices.³⁶ To illustrate the price advantage of buying cigarettes over the internet, in New York City, a carton of cigarettes can cost upwards of seventy dollars,³⁷ while a carton of cigarettes over the internet can cost less than fifteen dollars.³⁸ As of 2003, internet sales of cigarettes accounted for a little more

29. John Reid Blackwell, *Tobacco Campaign: Major Companies Defend their Turf Against 'Underground' Competitors*, RICHMOND TIMES DISPATCH, Mar. 24, 2003, at D4. In 2002, the states with the highest taxes per pack of cigarettes were: New York (\$1.50), New Jersey (\$1.50), Washington (\$1.425), Rhode Island (\$1.32), and Hawaii (\$1.20). Neusner, *supra* note 27, at 46.

30. Berlau, *supra* note 28, at 18.

31. See Sellers, *supra* note 14, at 96.

32. *Id.*

33. The tobacco companies involved in the settlement were Philip Morris Cos., R.J. Reynolds Tobacco Co., Lorillard Inc., and Brown & Williamson Tobacco Corp. Heather MacGregor & Matt Ackerman, *Judge Approves States' \$7.6B Share of \$206B Pact with Tobacco Industry*, N.J. L.J., Dec. 7, 1998, at 822.

34. Neusner, *supra* note 27, at 46. The 1998 settlement involved all fifty states. See MacGregor & Ackerman, *supra* note 33, at 822. Four states settled individually while the remaining forty-six states settled for a tobacco industry payment of \$206 billion over twenty-five years beginning on April 15, 2000. *Id.* In the settlement, Philip Morris agreed to pay half of the \$254 billion settlement. Sellers, *supra* note 14, at 96.

35. Neusner, *supra* note 27, at 46.

36. Blackwell, *supra* note 29, at D4 ("Hundreds of web sites have sprung up to cater to customers who are fed up with high cigarette prices.").

37. Marton Dunai, *Duty-Free Web Site's Cigarette Sales Ignite U.S. Scrutiny*, WALL ST. J., Aug. 5, 2004, at B1 [hereinafter Dunai, *Duty-Free*].

38. Dunai, *Altria Unit*, *supra* note 13, at B2.

than two percent of total cigarette sales in the United States.³⁹ That figure has been estimated to reach fourteen percent by 2005.⁴⁰ According to Philip Morris, as of January 2004, hundreds of websites sell cigarettes over the internet.⁴¹ Cigarette websites obtain discounted cigarettes in several ways.⁴² Some websites operate from Indian reservations and are able to sell discounted cigarettes because they are exempt from state and federal excise taxes.⁴³ Other websites operate from states with low cigarette taxes⁴⁴ or operate offshore.⁴⁵ Many, if not all, of these offshore websites can sell cigarettes at much lower prices than local retailers because the cigarettes they sell are either counterfeit⁴⁶ or “gray market,” which are cigarettes manufactured for sale overseas but are re-imported and sold without the manufacturer’s permission.⁴⁷ Offshore cigarette websites often remove the cigarettes from their original packaging and disguise them in “book format” to avoid detection by customs agents.⁴⁸

The rise of internet cigarette sales has drawn the attention of both state and federal governments.⁴⁹ Connecticut Attorney

39. Philip Morris, *supra* note 14, at 9; *see also* Blackwell, *supra* note 29, at D4.

40. Neusner, *supra* note 27, at 46.

41. Sellers, *supra* note 14, at 96.

42. *See* Blackwell, *supra* note 29, at D4.

43. Sellers, *supra* note 14, at 96.

44. Blackwell, *supra* note 29, at D4.

45. *See generally* Dunai, *Duty-Free*, *supra* note 37, at B1 (describing the operations of Otamedia in Switzerland).

46. The Organisation for Economic Co-operation and Development defines “counterfeit” as “a product which so closely imitates the appearance of the product of another to mislead a consumer that it is the product of another. Hence, it may include trademark infringing goods, as well as copyright infringements [and] includes copying of packaging, labeling and any other significant features of the product.” Organisation for Economic Co-operation and Development, *The Impact of Counterfeiting*, at 3 (1998), available at <http://oecd.org/dataoecd/11/11/2090589.pdf>.

47. Blackwell, *supra* note 29, at D4. “Gray market” cigarettes also refer to surplus cigarettes manufactured overseas then imported and sold at a deep discount. *See* Dunai, *Duty-Free*, *supra* note 37, at B1.

48. Philip Morris, *supra* note 14, at 9. This report also provides photographs of cigarettes repackaged in “book format.” *Id.*

49. *See, e.g.*, Jim VandeHei, *GOP Whip Tried to Aid Big Donor; Provision was Meant to Help Philip Morris*, WASH. POST, June 11, 2003, at A01 (Congressional attempt to make it harder to sell cigarettes online); David Pittman,

General Richard Blumenthal stated that “[i]nternet tobacco sales outlets almost never make a meaningful effort to enforce age restrictions.”⁵⁰ In addition to the problem of minors obtaining cigarettes online, the states lost an estimated \$552.4 million in tax revenue because of illegal cigarette sales in 2003.⁵¹ The loss of tax revenue and the ease of minors obtaining cigarettes online have prompted some states to pass statutes designed to curb the sale of cigarettes online.⁵² In 2000, New York State enacted a statute⁵³ that outright bans internet cigarette sales by prohibiting cigarette sellers and carriers from shipping and transporting cigarettes directly to New York consumers.⁵⁴ In 2004, Kansas passed a statute⁵⁵ that regulates internet cigarette sales by requiring cigarette shippers to register with the state as retailers, collect sales tax, remit the taxes to the state, and buy cigarette tax stamps from the state.⁵⁶ The Kansas law also addresses the problem of underage purchases of cigarettes online by requiring sellers to obtain certifications from purchasers that they are of legal age and that the cigarettes are not in-

Ariz. Gunning for Buyers of Online Smokes, TUCSON CITIZEN, Aug. 26, 2004, at 1D (Arizona law imposes fines on internet cigarette purchasers); John Petterson, *Cigarette Tax Measure Focus of Ceremony*, KANSAS CITY STAR, June 16, 2004, at 3 (Kansas law designed to discourage online cigarette sales); Tom Wanamaker, *Seneca Nation Sues New York over Internet Smoke-Sales Ban*, INDIAN COUNTRY TODAY, Jan. 28, 2004, available at <http://www.indiancountry.com/content.cfm?id=1074965057> (New York State bans online cigarette sales); Staff and Wire Reports, *MD Atty. General Reached Settlement with Internet Cigarette Retailers*, DAILY RECORD, Dec. 4, 2003, available at http://www.findarticles.com/p/articles/mi_qn4183/is_200312/ai_n10059248 (Maryland sued internet cigarette retailer for tax evasion and sale to minors); Richard Blumenthal, *Tobacco Control: A State Perspective*, 3 YALE J. HEALTH POL'Y L. & ETHICS 151, 154 (2003) (Connecticut Attorney General and Department of Revenue Services created a task force to combat online cigarette sales).

50. Blumenthal, *supra* note 49, at 154.

51. Pittman, *supra* note 49, at 1D.

52. *See id.*

53. Unlawful Shipment or Transport of Cigarettes, N.Y. PUBLIC HEALTH LAW § 1399-II (McKinney 2004).

54. *Brown & Williamson Tobacco Corp. v. Pataki*, 320 F.3d 200, 202 (2d Cir. 2003).

55. Sale of Cigarettes; Requirements; Internet, Telephone or Mail Order Transactions, Requirements; Packages of Cigarettes; Penalties, 2004 Kan. Sess. Laws Ch. 140 § 1 (2004).

56. Petterson, *supra* note 49, at 3.

tended for use by a minor.⁵⁷ A new Arizona statute⁵⁸ requires internet sellers to file monthly reports with the state listing the names, ages, addresses, and purchases of customers and to verify that they have collected all state taxes owed.⁵⁹ Violation of the law by sellers or shippers could result in criminal felony prosecution and fines up to \$5,000 or five times the price of cigarettes purchased, whichever is greater.⁶⁰ Washington and California have similar laws regulating online cigarette sales.⁶¹

The federal government has also addressed the problem of internet cigarette sales.⁶² In 2000, Congress passed the Imported Cigarette Compliance Act⁶³ which bans the reimportation of cigarettes bearing a U.S. trademark without the consent of the trademark holder.⁶⁴ The U.S. Senate has passed the Prevent All Cigarette Trafficking Act (PACT Act),⁶⁵ which would make it easier for federal law enforcement to combat the importation of cigarettes via the internet by reducing the number of cigarettes necessary to make interstate smuggling a fed-

57. *Id.*

58. Cigarettes; Delivery Sales, 2004 Ariz. Sess. Laws Ch. 311, SB1353 (2004), available at <http://www.azleg.state.az.us/FormatDocument.asp?inDoc=legtext/46leg/2r/laws/0311.htm>.

59. Pittman, *supra* note 49, at 1D.

60. *Id.*

61. *Id.*

62. See, e.g., VandeHei, *supra* note 49, at A01.

63. 19 U.S.C. §§ 1681–1681b (2000).

64. *Id.* According to a Philip Morris spokesperson, Philip Morris has sued seven cigarette websites operating overseas under this Act and has won six of those suits. Michael Bobelian, *Pursuing Counterfeiters: Litigation is One Option to Stop Sales of Fake Products*, N.Y. L.J., Oct. 14, 2004, at 5. Under 19 U.S.C. § 1681a(a)(4) (2000), “[C]igarettes may be imported into the United States only if ... such cigarettes bear a United States trademark registered for such cigarettes [and] the owner of such United States trademark registration for cigarettes ... has consented to the importation of such cigarettes into the United States” (emphasis added). Philip Morris, a U.S. trademark owner, asserts that it does not consent to the sale of its brands over the internet because many of them lack age verification, encourage consumers to evade taxes, sell cigarettes intended for one country that do not comport with warning label requirements in the country where they are ultimately sold, violate advertising laws, falsely imply affiliation with Philip Morris, sell counterfeit cigarettes, and take consumers’ credit card information but fail to deliver the cigarettes ordered. Philip Morris, *supra* note 14, at 9. According to Philip Morris officials, Philip Morris has never authorized internet sales of its brands. Blackwell, *supra* note 29, at D4.

65. S. 1177, 108th Cong. (2003).

eral crime from 60,000 to 10,000.⁶⁶ The House of Representatives has yet to pass the PACT Act.⁶⁷ The House is also reviewing an amendment to the Jenkins Act,⁶⁸ tentatively called the Internet Tobacco Sales Enforcement Act.⁶⁹ The amendment, if signed into law, would regulate interstate online cigarette sales and would make it harder for cigarette websites to evade taxes.⁷⁰

In 2003, House Representative Roy Blunt attempted to insert a provision in the Homeland Security Bill that would have made it harder to sell cigarettes over the internet.⁷¹ Representative Blunt had instructed congressional aides to add the provision to the bill within hours of the final House vote without anyone in the House either supporting the provision or aware of its last-minute addition into the Homeland Security Bill.⁷² However, Speaker J. Dennis Hastert's chief-of-staff was alerted to the provision and had it pulled before the final House vote, ultimately thwarting Representative Blunt's secret attempt to add the provision.⁷³ The attempt to add the tobacco provision became a scandal for Representative Blunt because he had re-

66. William V. Corr, *Campaign for Tobacco-Free Kids: Federal and State Governments Must Strengthen Efforts to Combat Cigarette Smuggling*, U.S. NEWSWIRE, June 9, 2004, available at <http://releases.usnewswire.com/GetRelease.asp?id=31717>.

67. *See id.*

68. Jenkins Act, 15 U.S.C. § 375 (2000). This statute regulates mail-order trade. Dunai, *Duty-Free*, *supra* note 37, at B1.

69. H.R. 2824, 108th Cong. (2004). Section 2 of the bill reads in pertinent part:

Each person who engages in an *interstate sale of cigarettes or smokeless tobacco* ... shall comply with all the excise, sales, and use tax laws applicable to the sale or other transfer of cigarettes or smokeless tobacco in the State and place in which the cigarettes or smokeless tobacco are delivered as though the person were physically located in that State or place.

H.R. 2824 § 2, 108th Cong. (2004) (emphasis added). The term "interstate sale of cigarettes or smokeless tobacco" is defined as "any sale of cigarettes or smokeless tobacco in interstate or *foreign commerce*." H.R. 2824 § 7(4) (2004) (emphasis added). Thus, if the bill were signed into law, offshore cigarette websites would be required to comply with *all* taxes applicable to the sale as though the websites were physically located in that state.

70. Dunai, *Duty-Free*, *supra* note 37, at B1.

71. VandeHei, *supra* note 49, at A01.

72. *Id.*

73. *Id.*

ceived large campaign donations from Philip Morris, a major campaign contributor and lobbying force on Capitol Hill,⁷⁴ and because his son and wife were lobbyists for Philip Morris.⁷⁵ Representative Blunt argued that the provision was relevant to homeland security because terrorist groups such as Hezbollah⁷⁶ allegedly profited from the sale of contraband cigarettes.⁷⁷ However, a representative for Altria Group, the parent company of Philip Morris, admitted that the tobacco provision was “pretty important to [them].”⁷⁸ In fact, Philip Morris has also been lobbying in state legislatures for more restrictions on cigarette websites.⁷⁹ Philip Morris wants legislation curbing the sale of its cigarette brands over the internet because such sales have been a contributing factor to the company’s declining profits in recent years.⁸⁰

Philip Morris’s efforts to curb the sale of cigarettes over the internet has not been limited to lobbying legislatures.⁸¹ In 2002, Philip Morris established its “Brand Integrity Department,” which was designed to collect intelligence and combat the illegal sale of Philip Morris cigarette brands, such as counterfeit cigarettes, smuggled cigarettes, internet sales, and imported gray

74. Juliet Eilperin, *Lobbyist Curbs Role Over Tie to Rep. Blunt*, WASH. POST, Sept. 9, 2003, at A21.

75. Berlau, *supra* note 28, at 18.

76. Hezbollah is a Lebanese terrorist group of Shiite militants. Council on Foreign Relations, *Terrorism: Q & A*, at <http://www.cfrterrorism.org/groups/hezbollah.html>. A group of more than two dozen men bought cigarettes in North Carolina where the taxes were fifty cents per carton, resold them in Michigan where taxes were \$7.50 per carton, then sent their profits to Hezbollah. Neusner, *supra* note 27, at 46.

77. VandeHei, *supra* note 49, at A01. The terrorist ties to illegal cigarette sales does not end there. In 1993, the group convicted of planning the first World Trade Center attack possessed counterfeit cigarette tax stamps. Neusner, *supra* note 27, at 46. Also, Saddam Hussein’s son, Uday, allegedly oversaw a cigarette-smuggling operation in Iraq, “primarily to enrich his family and fund Iraq’s weapons programs.” *Id.*

78. VandeHei, *supra* note 49, at A01.

79. Blackwell, *supra* note 29, at D4.

80. Sellers, *supra* note 14, at 96 (reporting that in 2002 Philip Morris saw profits fall thirteen percent from the previous year primarily because the rising cost of cigarettes has resulted in smokers finding better bargains from websites, deep-discount brands, and counterfeit cigarettes).

81. See generally Blackwell, *supra* note 29, at D4 (describing various efforts by Philip Morris to combat the sale of counterfeit and gray market cigarettes).

market cigarettes.⁸² The Brand Integrity Department works to complete much of the investigatory work itself before handing off cases to law enforcement.⁸³ To this end, Philip Morris staffed its Brand Integrity Department with former law enforcement experts from the Secret Service, Customs, the Bureau of Alcohol Tobacco Firearms and Explosives, and the FBI.⁸⁴ The department also consists of Philip Morris employees with expertise in distribution channels, packaging and design.⁸⁵

Beginning in 2002, Philip Morris brought twenty lawsuits against sixty-seven online cigarette vendors.⁸⁶ The lawsuits allege that the cigarette websites violate the Lanham Act⁸⁷ by misusing Philip Morris's trademarks in an effort to attract internet users to their sites and that the websites are selling cigarettes that have been imported in violation of the Imported Cigarettes Compliance Act of 2000.⁸⁸ Philip Morris has been successful in almost every case that has been decided, including one against Otamedia, the operator of the website Yesmoke.com.⁸⁹ The suit against Otamedia provides the perfect example of how ineffectual both state and federal governments as well as Philip Morris have been in curbing the sale of gray market or counterfeit cigarettes by offshore websites.⁹⁰

The owners of Otamedia, Italian brothers Gianpaolo and Carlo Messina,⁹¹ first incorporated Otamedia in the Isle of Man, and later in Belize, and presently operate from Switzerland.⁹²

82. *Id.*

83. Bobelian, *supra* note 64, at 5.

84. *Id.*

85. *Id.*

86. Dunai, *Altria Unit*, *supra* note 13, at B2. In addition to Otamedia, the cigarette websites that Philip Morris has sued include: allsmoke.com, cheapmarlboro.com, discountcigs.homestead.com, discountcigarettes.cjb.net, europecigarettes.com, freefags.com, smokefarm.com, smokeplanet.com, smoke.shop4all.net, and 18orless.com. *Philip Morris Sues Internet Vendors*, NAT'L PETROLEUM NEWS, Nov. 1, 2002, at 7.

87. 15 U.S.C. § 1114 (2000).

88. *Philip Morris Sues Internet Vendors*, NAT'L PETROLEUM NEWS, Nov. 1, 2002, at 7.

89. The website now operates under the domain names yesmoke.ch or yessmoke.ch. Dunai, *Duty-Free*, *supra* note 37, at B1.

90. *See, e.g.*, Bobelian, *supra* note 64, at 5.

91. *See* Dunai, *Duty-Free*, *supra* note 37, at B1.

92. *Philip Morris*, 331 F. Supp. 2d at 229 n.1.

The Otamedia website has drawn millions of customers.⁹³ After establishing Otamedia in 2000, the Messina brothers said they quadrupled their revenue to \$80 million in 2003 and expected to generate over \$100 million in 2004.⁹⁴ Otamedia registered its domain names, yesmoke.com and yessmoke.com, with Network Solutions Inc., a domain name registrar located in Virginia.⁹⁵ The website attracts customers by using “metatags,” invisible strings of keywords that include: “Marlboro,” “Camel” and other cigarette brands, as well as “cigarettes,” “online” and “duty-free.”⁹⁶ Internet users who enter these keywords into a search engine are directed to Otamedia’s website.⁹⁷ On the website’s homepage, the byline “Your online cigarette store” appears above a picture of a man wearing an Alpine hat lighting a cigarette that resembles the silhouette icon of the “Marlboro Man.”⁹⁸ Previously, the website displayed a picture that resembled the Marlboro Man even more closely, wearing a cowboy hat rather than the Alpine hat now worn,⁹⁹ perhaps to mislead consumers into believing the site is affiliated with Philip Morris. In addition to selling cigarettes, the website also posts articles about tobacco-related news, tobacco safety, and editorials denouncing Philip Morris.¹⁰⁰

According to Carlo Messina, Otamedia obtains its cigarettes from several sources.¹⁰¹ Otamedia buys its cigarettes in bulk

93. Dunai, *Altria Unit*, *supra* note 13, at B2.

94. Dunai, *Duty-Free*, *supra* note 37, at B1.

95. Dunai, *Altria Unit*, *supra* note 13, at B2.

96. Dunai, *Duty-Free*, *supra* note 37, at B1.

97. *Id.*

98. *Philip Morris*, 331 F. Supp. 2d at 235.

99. *Id.* at 235 n.9.

100. For example, after Philip Morris filed its order to show cause seeking the transfer of Otamedia’s domain names, Otamedia responded by posting on its website, “This is what can happen when the colossus [i.e. Philip Morris] decides to impose itself on someone: this is how it intimidates without making threats, how it isolates its enemies without committing any criminal act. The PM company, in fact, tries to conquer using clichés and people’s fears.” Otamedia, “*A Close Encounter with the Multinational Company*,” at <http://www.yesmoke.ch/news/pmvy/020915.php>. After the court ordered the transfer of Otamedia’s “.com” domain names to Philip Morris, Otamedia posted on its website that “Philip Morris shows itself to be a rotten merchant that treads on the rights of American citizens.” Otamedia, *The Virtual Victory of Big Tobacco*, at <http://www.yesmoke.ch/news/pmvy/040819.php>.

101. Dunai, *Duty-Free*, *supra* note 37, at B1.

from duty-free chains and a Dutch clearinghouse.¹⁰² The Messina brothers also claim that their cigarettes come from a Philip Morris factory in the Philippines that sells its surplus at a deep discount.¹⁰³ However, Philip Morris officials deny that their factories directly supply Otamedia and assert that the cigarettes are probably counterfeit.¹⁰⁴ The cigarettes arrive at and leave from a duty-free customs haven in Switzerland where Otamedia can avoid paying Swiss taxes or customs because the cigarettes never formally enter Switzerland.¹⁰⁵

Philip Morris, as part of its effort to curb the unauthorized online sale of its brands, sued Otamedia in 2002.¹⁰⁶ Philip Morris sought declaratory and injunctive relief for trademark infringement, unfair competition, and other violations of the Lanham Act¹⁰⁷ and analogous state law, arising from Otamedia's unauthorized sale of Philip Morris cigarettes over the internet.¹⁰⁸ Otamedia declined to answer Philip Morris's complaint,¹⁰⁹ and the court therefore entered a default judgment against

102. *Id.*

103. *Id.*

104. *Id.*

105. *Id.*

106. *Philip Morris*, 331 F. Supp. 2d at 229.

107. 15 U.S.C. § 1114 (2000) reads in pertinent part:

Any person who shall, without the consent of the registrant ... use in commerce any reproduction, counterfeit, copy, or colorable imitation of a registered mark in connection with the sale, offering for sale, distribution, or advertising of any goods or services on or in connection with which such use is likely to cause confusion, or to cause mistake, or to deceive . . . shall be liable in a civil action by the registrant for the remedies hereinafter provided.

Id.

108. *Philip Morris*, 331 F. Supp. 2d at 229.

109. According to Otamedia, it decided not to answer the complaint because Philip Morris demanded lists of all of Otamedia's suppliers and customers, the names of its employees, and the company's balances. Otamedia claimed that disclosing such information would be "a serious crime for [sic] Swiss law." Otamedia, "A Close Encounter" with the Multinational Company, at <http://www.yesmoke.ch/news/pmvvy/020915.php>. However, Otamedia's lawyers felt obligated to comply with the discovery demand, so Otamedia "abandoned both the suit and the lawyers." *Id.* On the other hand, "Otamedia may well have calculated that the Judgment itself posed no threat to its business, given the obstacles to enforcing it in any meaningful way against a foreign entity." *Philip Morris*, 331 F. Supp. 2d at 234 n.6.

Otamedia on January 27, 2003.¹¹⁰ The default judgment enjoined Otamedia from using Philip Morris's trademarks and from supplying cigarettes, fulfilling orders for drop shipping, or facilitating the importation of gray market Philip Morris cigarettes into the United States.¹¹¹

Despite the court order, the Messina brothers continued selling gray market cigarettes to U.S. consumers.¹¹² This began a series of cat-and-mouse maneuvers between Philip Morris and Otamedia.¹¹³ Several months after the default judgment, Otamedia's staff discovered a jumble of wires and electronics in a box of L&M cigarettes.¹¹⁴ Thinking it was a bomb, many Otamedia employees fled the scene.¹¹⁵ Otamedia received five more wired boxes, which turned out to be not bombs, but tracking devices planted by Philip Morris, which wanted to find out how Otamedia obtains its cigarettes.¹¹⁶

Realizing that the court order enjoining Otamedia from selling cigarettes to U.S. consumers proved wholly ineffectual, on August 4, 2003, Philip Morris brought an order to show cause, which sought to modify the default judgment by a court order to transfer ownership of the U.S.-registered domain names, yesmoke.com and yessmoke.com, to Philip Morris.¹¹⁷ In response, Otamedia registered new domain names, yesmoke.ch and yessmoke.ch, in Switzerland and automatically redirected visitors to

110. *Philip Morris*, 331 F. Supp. 2d at 229. The default judgment found:

The Otamedia Website displays logos and images confusingly similar to those of Philip Morris trademarks [citation to judgment omitted], and through it, Otamedia illegally sells to customers in the United States Philip Morris cigarettes intended for sale abroad ("gray market cigarettes"). The Otamedia Website also infringes and dilutes Philip Morris trademarks, violates both the Imported Cigarette Compliance Act, 19 U.S.C. § 1681 *et seq.* and New York General Business Law § 360-1, and constitutes false advertising and unfair competition under the Lanham Act.

Id. Because Otamedia defaulted, the court found the facts in Philip Morris's complaint admitted by Otamedia. *Id.*

111. *Id.*

112. *Id.* at 246–47.

113. Dunai, *Duty-Free*, *supra* note 37, at B1.

114. *Id.*

115. *Id.*

116. *Id.*

117. *Philip Morris*, 331 F. Supp. 2d at 229.

its new “.ch” domain names before the order to show cause could be adjudicated.¹¹⁸ Otamedia also registered other new domain names that redirected internet users to the Otamedia website, including yespeedy.com, yesspeedy.com, yes-speedy.ch, and otamedia.com.¹¹⁹ In response, Philip Morris filed subsequent submissions, which asked the court to include Otamedia’s new Swiss domain names in the order to show cause.¹²⁰ However, because Philip Morris did not request this relief in its initial motion papers and had not established an adequate legal or factual basis for it, the court denied the request without prejudice, which left open the possibility that the court will order the transfer of Otamedia’s Swiss domain names in the future.¹²¹

On August 20, 2004, the court found that Otamedia violated the default judgment by devoting its business almost exclusively to selling gray market cigarettes, a substantial percentage of which were Philip Morris brands, to U.S. consumers.¹²² The court therefore ordered that the domain names yes-

118. *Philip Morris*, 331 F. Supp. 2d at 234 n.8. “The ‘.ch’ extension signifies that the domain name is registered in Switzerland; ‘ch’ stands for *Confederation Helvetique*.” *Id.*

119. *Id.*

120. *Id.* at 231 n.3. The transfer of domain names is the typical remedy for cybersquatting claims, which hold a person liable who in bad faith intended to profit from a protected trademark and “registers, traffics in, or uses a *domain name* that . . . is identical or confusingly similar to or dilutive of that mark.” Anticybersquatting Consumer Protection Act, 15 U.S.C. § 1125(d)(1)(A)(ii)(II) (2000) (emphasis added). However, Otamedia’s infringement of Philip Morris’s trademark was not in its domain names because “yesmoke.com” or “yessmoke.com” are not “identical or confusingly similar to or dilutive of that mark.” Rather, the trademark infringement occurred on the content of the website itself in that it displayed “logos and images confusingly similar to those of Philip Morris trademarks.” *Philip Morris*, 331 F. Supp. 2d at 229. This is not to say that such a remedy must be limited to cybersquatting claims.

121. *Philip Morris*, 331 F. Supp. 2d at 231 n.3.

122. *Id.* at 244. Unlike the initial complaint, Otamedia opted to appear in court for the order to show cause. Carlos Messina, the co-owner of Otamedia with his brother Gianpaolo Messina, filed a declaration with the court describing himself as the “Director of the Legal Department for Otamedia Limited.” *Id.* at 231. However, he later testified that Otamedia does not have a specific legal office or department but that he is the one in charge of it. *Id.* at 231 n.3. At the evidentiary hearing for the order to show cause, the court found that Messina produced fabricated evidence and may have perjured himself. *Id.* at 245, 247.

moke.com and yessmoke.com be transferred to Philip Morris.¹²³ Addressing the difficulty of enforcing judgments against off-shore websites, the court stated that “[b]efore this proceeding, Otamedia evidently calculated that its elusive and ephemeral location, coupled with the ‘virtual’ nature of its business, placed it safely beyond the reach of conventional enforcement measures available to a U.S. federal court.”¹²⁴ The court found that the remedy of transferring Otamedia’s U.S.-registered domain names to Philip Morris would be “an *efficacious* means to enforce the Judgment, a means inherent in the very same technology by which Otamedia has to date been able to violate it with impunity.”¹²⁵

However, merely transferring Otamedia’s U.S.-registered domain names, but not its Swiss-registered domain names, proved to be a wholly *inefficacious* means of enforcing the judgment because U.S. consumers continue buying cigarettes from Otamedia through its Swiss-registered domain names.¹²⁶ This ruling constitutes the second “victory” of Philip Morris against Otamedia in U.S. courts.¹²⁷ Jack Holleran, the senior

123. *Id.* at 247.

124. *Id.* at 245.

125. *Id.* (emphasis added).

126. On November 16, 2004, agents from the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) seized tons of cigarettes at John F. Kennedy Airport which were shipped to the United States by Otamedia. Lisberg, *supra* note 13, at 35. This occurred almost three months after Philip Morris seized Otamedia’s U.S.-registered domain names, proving that the order did nothing to enjoin Otamedia from selling cigarettes to U.S. consumers. However, after the ATF seizure of Otamedia’s shipment, Otamedia posted on its website, “because of our recent problems at New York’s J.F.K. Airport, we have, against our will, been obliged to interrupt our regular shipments to the United States. We plan to start selling Yesmoke cigarettes in the States on January 2005.” Otamedia, *Letter to its U.S. Consumers*, at <http://www.yesmoke.ch/communicate.php>.

127. The first “victory” was the default judgment rendered on January 27, 2003. See *Philip Morris*, 331 F. Supp. 2d at 229. Otamedia’s litigation woes did not end with this case. On October 13, 2004, New York City won a \$17,382,121 judgment against Otamedia. Carl Campanile, *\$17M Fine Burns Net Cig Seller*, N.Y. POST, Oct. 13, 2004, at 4. The City alleged that Otamedia misled consumers into believing they could evade tobacco taxes by buying cigarettes online. *Id.* Like its initial suit against Philip Morris, Otamedia repeatedly failed to respond to court papers or to appear in court. *Id.* City lawyers assert that the judgment is the largest against a contraband cigarette scam to date. *Id.* Eric Proshansky, a lawyer for New York City, stated that

vice president of Philip Morris's Brand Integrity Department, stated after the ruling, "We are pleased Judge Lynch has ordered ... continued protection of our trademark rights. We believe this will send a message to all Internet retailers who sell our products unlawfully."¹²⁸ However, the real message being sent by this ruling is that if a website operates from and registers its domain name outside the United States, then U.S. courts have no effective means of enforcing judgments against it.

II. SEIZING THE DOMAIN NAME: AN INEFFECTUAL REMEDY

Philip Morris's attempt to enjoin Otamedia's unauthorized sale of Philip Morris brands by seizing its domain names can be analogized to New York City's padlocking of unlicensed cigarette retailers' physical premises when the retailer violates the city's order to cease the unlicensed activity.¹²⁹ Otamedia's domain names are the virtual doors of its online cigarette store and Philip Morris is essentially trying to padlock its doors.¹³⁰ This analogy highlights the problem of combating offshore internet cigarette dealers: while New York City is able to exercise physical control over its cigarette retailers within city limits, Philip Morris has not been able to exercise virtual control over offshore internet cigarette dealers.¹³¹ After Philip Morris obtained Otamedia's U.S.-registered domain names, the Otamedia website posted its reaction to the decision by stating, "Yesmoke can continue to sell from its Swiss domain to its customers all over the world...because Philip Morris has never made any move against the Yesmoke.ch site, as this would re-

"[Otamedia is] an elusive company We'll find out where they are and collect the judgment." *Id.*

128. Dunai, *Altria Unit*, *supra* note 13, at B2.

129. New York City Administrative Code § 20-105(b)(3) (1986), also referred to as the "padlock law," authorizes the Commissioner of the Department of Consumer Affairs, after notice and a hearing, to order that the premises on which unlicensed activity is occurring be sealed. *Id.*

130. "[A] domain name can be likened to . . . opening the door to a place of business." Jason Berne, *Court Intervention but not in a Classic Form: A Survey of Remedies in Internet Trademark Cases*, 43 ST. LOUIS U. L.J. 1157, 1170 (1999). "[T]he domain name is the gateway to the products or services offered." David Romero, *A Worldwide Problem: Domain Name Disputes in Cyberspace Who is in Control?*, 9-Sum CURRENTS: INT'L TRADE L.J. 69, 73 (2000).

131. *See supra* Part I.

quire the ruling of a Swiss judge.”¹³² Indeed, because of the currently fractured structure of the DNS, seeking domain names registered abroad may require litigating in the country where the domain name is registered. To understand why, a basic description of the DNS may be helpful.

The “internet” is essentially a giant network of computers.¹³³ Each computer comprising a part of the internet has a unique identifying number, called an internet protocol address (IP address).¹³⁴ An IP address consists of four groups of digits separated by a period.¹³⁵ The DNS was developed as a user-friendly approach to surfing the internet without having to remember numeric IP addresses to find a particular website.¹³⁶ The DNS consists of a directory of all the domain names and their corresponding IP addresses.¹³⁷ Under the DNS, each IP address contains one or more unique alphanumeric domain names.¹³⁸ Thus, users can type in a domain name, such as “amazon.com,” instead of a long and difficult-to-remember numeric IP address, to find a particular website.¹³⁹ When a domain name is entered into the location box of an internet browser, the user’s computer determines the website’s corresponding IP address.¹⁴⁰ A domain name consists of alphanumeric strings separated by a dot.¹⁴¹ The string of characters preceding the dot is called the second level domain.¹⁴² The designation following the dot is called the

132. Otamedia, *The Virtual Victory of Big Tobacco*, at <http://www.yesmoke.ch/news/pmvy/040819.php> (Aug. 19, 2004).

133. See BENDER, *supra* note 11, § 3D.05(1).

134. *Id.*

135. Romero, *supra* note 130, at 69. For example, an IP address might be “123.45.678.90.”

136. See Jonathan Weinberg, *ICANN and the Problem of Legitimacy*, 50 DUKE L.J. 187, 195 (2000).

137. ICANN, *Frequently Asked Questions*, at <http://www.icann.org/faq/> (last visited May 23, 2005).

138. Through a process called IP-based virtual hosting, multiple domain names can be assigned to the same IP address. COMMITTEE, *supra* note 11, § 2.3.1.

139. See BENDER, *supra* note 11, § 3D.05(1).

140. Kim G. von Arx & Gregory Hagen, *A Declaration of Independence of ccTLDs from Foreign Control*, 9 RICH. J.L. & TECH. 4, ¶ 14 (2002), at <http://www.law.richmond.edu/jolt/v9i1/article4.html>.

141. *Id.* ¶ 11.

142. Gregory Hagen, *Sovereign Domains and Property Claims*, 11 INT'L J.L. & INFO. TECH. 1, 4 (2003).

top level domain (TLD).¹⁴³ Thus, for the hypothetical domain name, “imaginarydomainname.com,” the second level domain would be “imaginarydomainname” and the TLD would be “.com.” There are two main types of TLDs: (1) the generic TLD (gTLD), such as .com, .org, and .edu; and (2) the country code TLD (ccTLD), such as .kr (Korea), .uk (United Kingdom), and .ch (Switzerland).¹⁴⁴ While both types of TLDs work in much the same way technically, the rules and policies for registering domain names in the gTLDs and ccTLDs can vary significantly because of how the DNS developed early in its history.¹⁴⁵

The DNS began in the mid-1980s¹⁴⁶ when the Internet Assigned Numbers Authority (IANA), a group of scientists funded by the U.S. Department of Defense, implemented and managed the DNS until 1992.¹⁴⁷ During this period, IANA delegated registration of ccTLDs to country managers¹⁴⁸ who operate them according to local policies that are adopted to best meet the economic, cultural, and linguistic circumstances of the country or territory involved.¹⁴⁹ When IANA delegated ccTLD registration to country managers, it did so without entering into formal written agreements.¹⁵⁰ In 1992, the National Science Foundation, a U.S. administrative agency, took over the civilian fund-

143. See BENDER, *supra* note 11, § 3D.05(1).

144. von Arx & Hagen, *supra* note 140, ¶ 12. There is also a third type of TLD, the iTLD, which is used solely for infrastructure purposes and does not affect the normal user in any way. *Id.*

145. ICANN, *The Internet Domain Name System and the Governmental Advisory Committee (GAC) of ICANN* (2001), at <http://www.icann.org/committees/gac/outreach-en-01oct01.htm>.

146. ICANN, *March 2000 ICANN Meeting in Cairo: ccTLD Delegation and Administration Policies* (2000), at <http://www.icann.org/cairo2000/cctld-topic.htm>.

147. Weinberg, *supra* note 136, at 198.

148. “TLD managers are trustees for the delegated domain, and have a duty to serve the community. The designated manager is the trustee of the TLD for both the nation, in the case of ccTLDs, and the global Internet community.” ICANN, *ICP-1: Internet Domain Name System Structure and Delegation (ccTLD Administration and Delegation)*, at <http://www.icann.org/icp/icp-1.htm>.

149. ICANN, *March 2000 ICANN Meeting in Cairo: ccTLD Delegation and Administration Policies* (2000), at <http://www.icann.org/cairo2000/cctld-topic.htm>.

150. von Arx & Hagen, *supra* note 140, ¶ 32.

ing of the DNS and contracted with Network Solutions, Inc. (NSI) to manage the DNS,¹⁵¹ which lasted until 1998.¹⁵²

Today, management of the DNS is in a transitional phase from the U.S. government to the Internet Corporation for Assigned Names and Numbers (ICANN).¹⁵³ This transition began in 1998 with the creation of ICANN through a Memorandum of Understanding between the U.S. Department of Commerce and ICANN.¹⁵⁴ Under the latest Memorandum of Understanding, to complete the transition of the DNS management, ICANN must enter into agreements with all of the existing managers of the ccTLDs as well as the governments of the affected countries or territories, which IANA had not done when it initially delegated the ccTLDs to country managers.¹⁵⁵ Since 2000, ICANN has been pressuring ccTLD managers to enter into formal contractual relationships.¹⁵⁶ However, to date, only twelve out of the 246 ccTLDs have entered into such contracts.¹⁵⁷ The remainder

151. BENDER, *supra* note 11, § 3D.05(2).

152. NSI's control over the DNS proved to be an inequitable situation. *Development: V. The Domain Name System: A Case Study of the Significance of Norms to Internet Governance*, 112 HARV. L. REV. 1657, 1663 (1999). With NSI's monopoly over the registration of new domain names, potential registrants had no alternatives to NSI, which some registrants claimed had poor customer service, and other entities were prevented from becoming registrars in the lucrative domain name business. *Id.* Furthermore, NSI's procedure for domain name registration led to the problem of cybersquatting because NSI asserted that the registration of a domain name did not establish a trademark right to that domain name. *Id.* Under NSI's registration procedure, NSI registered domain names on a first-come, first-served basis and made it the registrant's responsibility to ensure that the domain name it registered did not infringe upon any trademark rights. *Id.* Because of NSI's policy to register domain names on a first-come, first-served basis, "cybersquatters" were able to register domain names of value in order to resell them for profit to the business normally associated with that name or to publicly criticize the owner or product of the trademark. *Id.*

153. ICANN, *Fact Sheet*, at <http://www.icann.org/general/fact-sheet.html>. ICANN is "a public benefit, non-profit entity" and is responsible for the management and oversight of the coordination of the DNS. *Id.*

154. See BENDER, *supra* note 11, § 3D.05(2).

155. ICANN, *March 2000 ICANN Meeting in Cairo: ccTLD Delegation and Administration Policies* (2000), at <http://www.icann.org/cairo2000/ccTld-topic.htm>.

156. von Arx & Hagen, *supra* note 140, ¶ 32.

157. To date, only Australia (.au), Kenya (.ke), Japan (.jp), Sudan (.sd), Taiwan (.tw), Uzbekistan (.uz), Palestine (.ps), Nigeria (.ng), Afghanistan (.af), Burundi (.bi), Laos (.la), and Malawi (.mw) have entered into ccTLD agree-

of the ccTLDs, including Switzerland's ".ch" ccTLD, which Otamedia's website now operates under, are each still operated by the country managers, independent of ICANN.¹⁵⁸ Thus, the DNS is not governed by a single entity; ICANN manages the gTLDs and only twelve ccTLDs,¹⁵⁹ while 234 ccTLDs are managed independently by country managers.¹⁶⁰

Turning back to Philip Morris's suit against Otamedia, Otamedia registered its ".com" domain names with NSI,¹⁶¹ the same Virginia-based company that managed the DNS from 1992 to 1998.¹⁶² When Philip Morris sought to obtain ownership of these domain names, NSI informed both parties that "the disputed domain name registration will not be transferred, suspended, or otherwise modified during the pendency of th[is] action, except upon order of the court."¹⁶³ Because NSI is an American corporation, the District Court unquestionably had the power to order NSI to transfer Otamedia's domain names to Philip Morris. On the other hand, Otamedia registered its Swiss ".ch" domain names with SWITCH: The Swiss Education and Research Network, the country manager for the ".ch" and ".il" ccTLDs.¹⁶⁴ Under SWITCH's General Terms and Conditions, SWITCH will transfer a domain name to a third party on the basis of a decision or settlement, if it is presented with a court or arbitration decision enforceable in Switzerland and a certificate on the enforceability of the decision.¹⁶⁵ Thus, for

ments with ICANN. See ICANN, *ccTLD Agreements*, at <http://www.icann.org/cctlds/agreements.html>. For a list of all the existing ccTLDs, see IANA, *Root-Zone Whois Information: Index by TLD Code*, at <http://www.iana.org/cctld/cctld-whois.htm>.

158. Hagen, *supra* note 142, at 5.

159. See ICANN, *ICANN Information*, at <http://www.icann.org/general/> (last visited May 23, 2005).

160. See ICANN, *ccTLD Agreements*, at <http://www.icann.org/cctlds/agreements.html> (last visited May 23, 2005).

161. *Philip Morris*, 331 F. Supp. 2d at 230.

162. See ICANN, *Fact Sheet*, at <http://www.icann.org/general/fact-sheet.html> (last visited May 23, 2005).

163. *Philip Morris*, 331 F. Supp. 2d at 230.

164. See SWITCH website, at <http://www.switch.ch/about/activities.html> ("Since the introduction of the Internet in Switzerland, SWITCH has been registering domain names ending in .ch and .li.").

165. SWITCH, *General Terms and Conditions (GTC) for the registration and administration of domain names below the domain ".ch" and ".il,"* ¶ 3.4.2, at http://www.switch.ch/id/terms/agb_v6_print.html.

Philip Morris to obtain Otamedia's Swiss-registered domain names, it would have to present SWITCH with a court or arbitration decision enforceable in Switzerland.

However, in the event that the District Court does modify its order to include Otamedia's Swiss domain names,¹⁶⁶ Philip Morris might not succeed in enforcing such an order in Switzerland because, as a general rule, trademark rights do not extend beyond the territory of a nation.¹⁶⁷ U.S. trademark owners cannot enforce their trademark rights in other countries because of the territoriality principle.¹⁶⁸ Therefore, "[t]he concept of global economy does not automatically translate to global trademark protection. Each country has its own trademark laws, procedures, and enforcement schemes."¹⁶⁹ In order for Philip Morris to obtain Otamedia's Swiss domain names, it would have to sue Otamedia in Switzerland under Swiss trademark law¹⁷⁰ or seek extraterritorial application of a U.S. court order¹⁷¹ that a Swiss court deems enforceable under Swiss law.

Thus, the litigation between Philip Morris and Otamedia exemplifies the impracticality of seeking domain names registered

166. The Southern District of New York denied Philip Morris's request to order the transfer of Otamedia's Swiss domain names *without prejudice*, leaving open the possibility that the court will order the transfer of the Swiss domain names later. *Philip Morris*, 331 F. Supp. 2d at 231 n.3.

167. Bella I. Safro & Thomas S. Keaty, *What's in a Name? Protection of Well-Known Trademarks Under International and National Law*, 6 TUL. J. TECH. & INTELL. PROP. 33, 34 (2004). See also Paris Convention for the Protection of Industrial Properties, July 14, 1967, art. 6(3), 21 U.S.T. 1583 ("A mark duly registered in a country of the Union shall be regarded as independent of marks registered in the other countries of the Union, including the country of origin.").

168. Safro & Keaty, *supra* note 167, at 34.

169. *Id.*

170. Federal Act 232.11, translated in <http://www.swisstm.ch/tradeact.html>.

171. Whether the District Court can apply the Lanham Act extraterritorially to reach Otamedia's Swiss domain names rests on three factors: "(1) whether the defendant's conduct has a substantial effect on United States Commerce; (2) whether the defendant is a citizen of the United States; and (3) whether there exists a conflict between defendant's trademark rights established under foreign law, and plaintiff's trademark rights established under domestic law." *Sterling Drug, Inc. v. Bayer AG*, 14 F.3d 733, 745 (2d Cir. 1994). Under international law, a state has jurisdiction to apply its laws extraterritorially with respect to conduct that has or is intended to have substantial effect within its territory. RESTATEMENT (THIRD) OF FOREIGN RELATIONS LAW OF THE UNITED STATES § 402(1)(c) (1987).

abroad as a remedy against offshore websites. Although Philip Morris certainly has the financial means to sue Otamedia in Switzerland, “American trademark owners and attorneys are most likely not familiar with the court system in foreign nations. Litigation in a foreign country can be very costly and, despite the added expense, the result is often uncertain.”¹⁷² The geographical safe haven under the current structure of the DNS is compounded by the fact that offshore websites can also find virtual safe havens by providing their domain name registrar with false names and contact information.¹⁷³ Thus, trademark owners could have difficulty ascertaining the true identity of such registrants.¹⁷⁴ In addition, not all ccTLD registrars require the domain name registrant to operate its website from within that country’s territory.¹⁷⁵ Thus, an offshore website could operate from country *X*, but register its domain names in countries *Y* and *Z* in an effort to hide its location and identity, and ultimately avoid any enforcement measures taken against it.

Indeed, Otamedia sought both geographical and virtual safe havens in its online cigarette operation.¹⁷⁶ Otamedia first incorporated in the Isle of Man, then in Belize, while conducting its business in Switzerland.¹⁷⁷ Also, Otamedia tried to hide its corporate identity by registering domain names under different entities.¹⁷⁸ For instance, Otamedia registered its Swiss domain names yesmoke.ch and yessmoke.ch under the entity “Yesmoke Tobacco, S.A.,” and registered yespeedy.ch, yesspeedy.ch, and yes-speedy.ch under the entity “Yespeedy Ltd.”¹⁷⁹ All of these

172. Xuan-Thao N. Nguyen, *The Digital Trademark Right: A Troubling New Extraterritorial Reach of United States Law*, 81 N.C. L. REV. 483, 491 (2003).

173. *Id.* at 506.

174. *Id.*

175. For example, SWITCH does not require registrants to operate their websites from Switzerland. See SWITCH, *supra* note 165, ¶ 2. Also, “[w]ith an attractive country code TLD, such as the South Pacific nation of Tuvalu and its ‘.tv,’ governments are profiting handsomely...by opening their domains to a global audience, marketing themselves as an alternative to the increasingly crowded ‘.com’ namespace.” Navin Katyal, *The Domain Name Registration .bizness: Are we being “Pulled Over” on the Information Super Highway?*, 24 HASTINGS COMM. & ENT. L.J. 241, 259 (2002).

176. See *Philip Morris*, 331 F. Supp. 2d at 229 n.1.

177. *Id.*

178. See *id.*

179. SWITCH, *Domain Name Search*, at <http://www.switch.ch/id/search-domain.html?mode=basic> (last visited May 23, 2005).

domain names led to the same Otamedia website Philip Morris has been attempting to enjoin.¹⁸⁰ Furthermore, Otamedia is not the only cigarette website operator that has taken advantage of the virtual safe haven within the current DNS.¹⁸¹ In early 2004, a U.S. District Court in Los Angeles transferred to Philip Morris the domain name of the cigarette website allsmoke.com.¹⁸² In response, the website relocated to a Russian web server and continued to sell Philip Morris brands at its new Russian-registered domain name, allsmoke.ru.¹⁸³

Thus, Otamedia and allsmoke.ru provide examples of how “given the strict territorial limits on enforcement, small actors who are deliberate in maintaining no assets or contacts with a forum will continue to be a problem.”¹⁸⁴ Furthermore, because extraterritorial enforcement of a judgment will always be subject to some form of scrutiny by foreign courts, offshore websites can easily remove their assets to a safe harbor in any jurisdiction which will refuse to recognize that judgment.¹⁸⁵ In the context of Philip Morris’s trademark infringement suits against offshore cigarette websites, “[i]n the absence of enforcement, intellectual property laws could easily be circumvented by the creation of Internet sites that permit the very distribution that has been enjoined [by a U.S. court].”¹⁸⁶ Given these difficulties in enforcing judgments against offshore websites, the solution may lie in the use of filtering technology domestically. The next

180. These domain names were last visited on December 22, 2004.

181. See Dunai, *Duty-Free*, *supra* note 37, at B1.

182. *Id.*

183. *Id.* After registering its Russian domain name, Allsmoke posted on its website, “we have opened an additional domain name not to depend on decision of American courts [sic]. American courts [sic] decisions can not be applied to any national domains extensions [sic]. Domain name Allsmoke.ru refers to Russian legislation and that is why American laws can not be applied in this case.” Allsmoke, *We Have Changed Our Address to Allsmoke.ru*, Mar. 19, 2004, at <http://www.allsmoke.ru/allnews.html#ru> (last visited Dec. 23, 2004). However, on October 26, 2004, Allsmoke posted on its website, “Dear clients! We inform [sic] that we resume shipping of orders excluding United States. Shipping to the United States will be available soon.” Allsmoke, at <http://www.allsmoke.ru/allnews.html#ru> (last visited Dec. 23, 2004).

184. Fagin, *supra* note 3, at 451.

185. Horatia Muir Watt, *Yahoo! Cyber-Collision of Cultures: Who Regulates?*, 24 MICH. J. INT’L L. 673, 690 (2003).

186. *Playboy Enterprises, Inc. v. Chuckleberry Publishing, Inc.*, 939 F. Supp. 1032, 1040 (S.D.N.Y. 1996).

part of this Note will explore two instances of government-mandated uses of filtering technology.

III. GOVERNMENT-MANDATED FILTERING

In May 2000, a French court ordered Yahoo! “to take all measures at its availability to dissuade and render impossible all visitation on Yahoo.com [by French users] to participate in the auction service of Nazi paraphernalia, as well as to render impossible any other site or service which makes apologies of Nazism or that contests Nazi crimes.”¹⁸⁷ The court found that Yahoo! is capable of identifying the geographical origin of users who visit its site, which therefore should provide Yahoo! with the means to prohibit users in France from accessing the site. In response to Yahoo!’s subsequent assertion that compliance with the order is technologically impossible, the court established an expert panel to study the feasibility of filtering out French users from the Yahoo! auction site.¹⁸⁸

In November 2000, based on the expert panel’s reports, the French court found that seventy percent of the IP addresses of French users could be correctly identified and blocked from accessing Yahoo! pages displaying Nazi material (geo-location filtering).¹⁸⁹ However, the court also found that users can hide their geographical location by using “anonymizer sites,”¹⁹⁰ which can replace the user’s real IP address with another address, thereby making the geographical location of the user unknown.¹⁹¹ For users whose location cannot be determined, the expert panel suggested that Yahoo! could request users to declare their nationality at the Yahoo! auction page or before

187. UEJF et LICRA v. Yahoo! Inc. et Yahoo France, T.G.I. Paris, May 22, 2000, obs. C. Bensoam & J. Gomez, *translated in* <http://www.juriscom.net/txt/jurisfr/cti/yauctions20000522.htm> [hereinafter *Yahoo I*].

188. Marc H. Greenberg, *A Return to Lilliput: The LICRA v. Yahoo! Case and the Regulation of Online Content in the World Market*, 18 BERKELEY TECH. L.J. 1191, 1210 (2003).

189. *Yahoo II*, T.G.I. Paris, Nov. 22, 2000.

190. Anonymizer sites use “anonymous proxy servers” which can keep an internet user’s identity secret. When visiting a website through an anonymizer site, the request to visit the website appears to the ISP as a request directed to the anonymizer site rather than the underlying website to which the user actually seeks access. *Center for Democracy & Technology v. Papert*, 337 F. Supp. 2d 606, 643 (E.D. Pa. 2004).

191. *Yahoo II*, T.G.I. Paris, Nov. 22, 2000.

searching for Nazi objects.¹⁹² With the combination of geo-location filtering and the declaration of nationality by users seeking to access the site, the court found that Yahoo! could achieve ninety percent compliance.¹⁹³ Based on these findings, the court ordered Yahoo! to comply with its May 2000 order to filter out French users from the auction site.¹⁹⁴

Yahoo!, however, ultimately never implemented the geo-location filtering ordered by the French court.¹⁹⁵ In December 2000, Yahoo! sued UEJF and LICRA in the United States District Court for the Northern District of California for a declaratory judgment that the French court's order is unenforceable in the United States on the grounds that the order violates the First Amendment.¹⁹⁶ However, before the District Court ruled on the merits, Yahoo! removed the Nazi memorabilia from its auction site.¹⁹⁷ Despite the removal of the Nazi memorabilia, the District Court ruled that the French order violated Yahoo!'s First Amendment rights and was therefore unenforceable in the United States.¹⁹⁸

Because Yahoo! never complied with the French court's order, the accuracy of the experts' estimates cannot be determined. However, geo-location filtering has since been criticized as being ineffectual.¹⁹⁹ First, it is only eighty to ninety-nine percent accurate and, second, it is easily circumscribed.²⁰⁰ One of the experts impaneled to report to the French court later criticized

192. *Id.*

193. *Id.*

194. *Id.*

195. See Joel R. Reidenberg, *Yahoo and Democracy on the Internet*, 42 JURIMETRICS J. 261, 276 (2002).

196. See Greenberg, *supra* note 188, at 1210.

197. See Reidenberg, *supra* note 195, at 276.

198. See *Yahoo!, Inc. v. La Ligue Contre Le Racisme et L'Antisemitisme*, 169 F. Supp. 2d 1181, 1194 (N.D. Cal. 2001). Also, in February 2003, a French criminal court dismissed charges against the former Yahoo! CEO for condoning war crimes by selling Nazi memorabilia. Lawrence W. Newman & David Zaslowsky, *Jurisdiction Through the Internet*, N.Y. L.J., Feb. 26, 2003, at 3 n.2.

199. See Greenberg, *supra* note 188, at 1215.

200. See *id.*; see also Jack L. Goldsmith & Alan O. Sykes, *The Internet and the Dormant Commerce Clause*, 110 YALE L.J. 785, 811 (2001) (Geo-location filtering "correctly identifies the content receivers' geographical identity at the national level between ninety and ninety-eight percent of the time, but at the state level only eighty to ninety-five percent of the time.").

the court's order as "half-assed and trivially avoidable" because the order can easily be circumvented by using an anonymizer site or by lying when the site prompts the user to give a declaration of nationality.²⁰¹ Furthermore, geo-location filtering raises "concerns about the preservation of the privacy rights of surfers to be free of software that identifies them as they surf the net."²⁰²

On the other hand, "[i]n contrast to the enforcement problems created by the Internet's locational ambiguity, geographic identification empowers states to implement a variety of public policies within their territories, including the enforcement of intellectual property rights, consumer protection, and data privacy through geographic filtering."²⁰³ The use of filtering technology as an enforcement tool in the *Yahoo!* case shows that internet sites can be made inaccessible from within a country's borders.²⁰⁴ Thus, filtering technology "readily bypasses ... all the familiar difficulties generally linked to international enforcement of legislative prescriptions or judicial decisions in the real world."²⁰⁵ Filtering technology could free courts from the need to rely on the ineffectual enforcement techniques of the physical world against offshore websites.²⁰⁶ If a court employs filtering technology to block access to offshore websites that violate domestic law, such website operators can no longer ignore the risk of liability or criminal sanctions in the hope that traditional enforcement means cannot reach it.²⁰⁷

Rather than mandating geo-location filtering on offshore website operators as the French court did against the unwilling *Yahoo!*, nations themselves should use filtering to block their own citizens from accessing illegal material on the internet.²⁰⁸ Ordering an offshore website to implement filtering may be ineffective because an offshore website may simply ignore a foreign court order, as *Otamedia* has done, or seek judicial invali-

201. Ben Laurie, *An Expert's Apology*, at <http://www.apache-ssl.org/apology.html> (last visited May 23, 2005).

202. Greenberg, *supra* note 188, at 1215.

203. Reidenberg, *supra* note 195, at 278.

204. *See* Muir Watt, *supra* note 185, at 679.

205. *Id.*

206. *See id.* at 690.

207. *See id.* at 691.

208. *See* Fagin, *supra* note 3, at 451.

dation of the foreign court order in the offshore website's home state, as Yahoo! has done.²⁰⁹ On the other hand, governmental use of filtering technology would avoid exertion of extraterritorial jurisdiction over offshore websites and minimize impact on the internet's infrastructure because filtering does not control the actual content on the internet, it merely controls what content users can access.²¹⁰ Nations should utilize filtering technology at the level of their domestic ISPs to enforce judgments against offshore websites because such technology "is less restrictive and intrusive than uncertain and inefficient judicially crafted case-specific remedies."²¹¹ Thus, government-mandated use of filtering technology by ISPs may present a viable solution to preventing U.S. consumers from purchasing cigarettes from offshore websites like Otamedia that thus far have evaded "uncertain and inefficient judicially crafted case-specific remedies."

Pennsylvania attempted the kind of government-mandated filtering by ISPs proposed above, but the Eastern District of Pennsylvania struck it down as unconstitutional.²¹² The use of government-mandated filtering by ISPs in Pennsylvania began in February 2002, when Pennsylvania enacted the Internet Child Pornography Act (the Act),²¹³ which requires ISPs to remove or disable access to child pornography residing in or accessible through their service upon notification by the Pennsylvania Attorney General.²¹⁴ To implement the Act, the Office of the Attorney General established the Child Sexual Exploitation Unit (CSEU) which would issue an informal notice to an ISP of

209. *See id.* at 419 ("[O]ffshore actors are unlikely to implement geo-location technologies voluntarily, and, without influence of indirect state action, will remain beyond the effective reach of states.").

210. *Id.* at 451-52.

211. *Id.* at 403.

212. *Center for Democracy & Technology*, 337 F. Supp. 2d at 655.

213. 18 Pa. Cons.Stat. §§ 7621-30 (2004).

214. Under the Act:

An Internet service provider shall remove or disable access to child pornography items residing on or accessible through its service in a manner accessible to persons located within this Commonwealth within five business days of when the Internet service provider is notified by the Attorney General pursuant to section 7628 (relating to notification procedure) that child pornography items reside on or are accessible through its service.

Duty of Service Provider, 18 Pa. Cons.Stat. § 7622 (2004).

child pornography residing in or accessible through its service and the ISP would be required to remove the items or disable access.²¹⁵ The informal notices identified the uniform resource locator (URL)²¹⁶ of the child pornography site(s).²¹⁷ The CSEU enforced the Act from April 2002 to September 2003, when the Center for Democracy & Technology,²¹⁸ the ACLU, and Plantagenet²¹⁹ filed a complaint for declaratory and injunctive relief, claiming that the informal notices and the Act violate the First Amendment and the Dormant Commerce Clause.²²⁰

At trial, several Pennsylvania ISPs²²¹ testified as to the feasibility of three types of filtering: DNS²²² filtering, IP²²³ filtering, and URL filtering.²²⁴ DNS filtering involves an ISP making entries in the DNS servers under its control that prevent requests to those servers for a specific website's domain name from converting to its corresponding IP address.²²⁵ Implementation of DNS filtering would not require ISPs to purchase new equipment, and if the ISP's staff is familiar with DNS filtering, implementation would be inexpensive and require little staff time.²²⁶ However, DNS filtering is more difficult to implement than IP filtering because it is a more specialized technique, not

215. *Center for Democracy & Technology*, 337 F. Supp. 2d at 620–21. The Office of the Attorney General and the ISPs in Pennsylvania agreed to follow an informal notification procedure rather than the formal statutory procedure set forth in § 7628 of the Act, which required a court order and criminal sanctions for noncompliance, because the ISPs were concerned that in some instances compliance may be technically impossible. *Id.* at 621.

216. “A URL is the commonly used textual designation of an Internet web site’s address.” *Id.* at 615.

217. *Id.* at 623.

218. The Center for Democracy & Technology is a nonprofit corporation devoted to internet issues. *See id.* at 612.

219. Plantagenet, Inc. is an ISP incorporated in Pennsylvania. *See id.*

220. *Id.* at 611–12.

221. The following ISPs testified at trial: America Online, Comcast IP Services, Epix Internet Services, Pennsylvania Online, Verizon Internet Services, and Worldcom. *See id.* at 627–28.

222. “DNS” stands for Domain Name System. *See supra* Part II.

223. “IP address” stands for Internet Protocol address, a unique identifying number for each computer comprising a part of the internet which consists of four groups of digits separated by a period. *See supra* Part II.

224. *See Center for Democracy & Technology*, 337 F. Supp. 2d at 627–28.

225. *Id.*

226. *Id.* at 629.

a standard process, and not something that ISPs normally do.²²⁷ The ISPs America Online and Worldcom, which do not utilize DNS filtering, both testified that implementing DNS filtering to their networks would be difficult.²²⁸ Furthermore, DNS filtering would not be effective for customers who do not use the DNS servers provided by their ISP, such as the many large businesses that operate their own DNS servers.²²⁹ Also, DNS filtering can lead to significant overblocking of innocent websites because it blocks requests for all subpages under the blocked domain name and those subpages may contain innocent content.²³⁰

IP filtering involves an ISP determining the IP address of a specific URL; the ISP then makes entries in its routing equipment that will block requests for the specific IP address.²³¹ Most ISPs already have the hardware needed to implement IP filtering, and ISPs routinely use IP filtering to respond to attacks on their networks.²³² Most ISPs can implement IP filtering without having to purchase additional equipment, and many ISPs already have an existing internal procedure to implement IP filtering.²³³ Unlike DNS filtering, IP filtering would be effective even when a user does not rely on the ISP's DNS server.²³⁴ However, a website can evade IP filtering by obtaining a new IP address for its website without changing its URL, but an ISP can counteract this practice by monitoring the website for changes to its IP address.²³⁵ Like DNS filtering, IP filtering re-

227. *Id.*

228. *Id.* For America Online, "automating this process would involve designing a new system to do DNS filtering, assessing the related risks, assigning additional long-term staff, and developing auditing and monitoring systems." *Id.* For Worldcom, "implementing DNS filtering would require [it] to purchase and configure additional DNS servers in its network and potentially reconfigure the systems of millions of customers." *Id.* at 630.

229. *Id.* at 631.

230. *See id.* at 633. For example, if DNS filtering blocked the hypothetical domain name "x.com" because its subpage, "x.com/subpage," contains child pornography, then all the other subpages of the domain name, which contain only innocent content, would also be blocked.

231. *Id.* at 628.

232. *Id.* at 629.

233. *Id.*

234. *Id.* at 632.

235. *Id.* Worldcom uses this technique of IP address monitoring, thus preventing websites from evading a block placed on its site by Worldcom. *Id.*

sults in a significant amount of overblocking because many websites can share a single IP address.²³⁶

URL filtering involves the placement of an additional device, or in some cases the reconfiguration of an existing router or other device, in an ISP's network that reassembles the internet traffic flowing through its network, reads each user's requested URL, and if the requested URL matches one of the URLs specified in a blocking order, discards or blocks the request.²³⁷ No ISPs in Pennsylvania utilize URL filtering.²³⁸ To implement URL filtering, the ISPs testified that they would be required to develop and test new equipment.²³⁹ However, URL filtering presents the most effective method of filtering because, unlike DNS or IP filtering, URL filtering blocks out URLs down to the specific subpage.²⁴⁰ Thus, URL filtering results in the least amount of overblocking of innocent pages compared to DNS or IP filtering because URL filtering targets only a specific URL of a domain name's subpage and not the entire IP address or domain name.²⁴¹ Although the court found URL filtering the most effec-

Furthermore, changing the IP address of a website would not evade DNS filtering. *Id.*

236. *Id.* at 633. For example, the court found that the IP address 204.251.10.203 hosted at least 15,575 websites. *Id.* at 638. Thus, if only one of these 15,575 websites contained child pornography, then use of IP filtering would also block the 15,574 *innocent* websites.

237. *Id.* at 628.

238. *Id.* at 630.

239. *Id.* The ISPs testified that URL filtering would require ISPs to purchase switches and routers to maintain the network's prior level of capacity because the switches and routers can handle less traffic if they are performing URL filtering. Unless an ISP purchased more switches and routers, URL filtering would slow down the performance of an ISP's network. *Id.* at 360–61.

240. *Id.* at 634.

241. *Id.* To illustrate, suppose the hypothetical IP address “111.111.111.111” hosts 500 domain names. Of those 500 domain names, only the hypothetical “xx.com” domain name contains child pornography. Suppose further that “xx.com” contains 100 subpages of which only one subpage contains child pornography. IP filtering would block all 500 domain names, including the 499 innocent domain names. DNS filtering would not block out the 499 innocent domain names, but would block out all 100 subpages of “xx.com,” including the 99 subpages that contain only innocent content. However, URL filtering would block out only the single offending subpage, allowing users to access the other 99 innocent subpages of that particular domain name as well as the other 499 innocent domain names within the single IP address.

tive method,²⁴² it also found that all three methods of filtering could be circumvented through the use of anonymous proxy servers.²⁴³ Despite the effectiveness of URL filtering, because of the additional cost to implement it, the Pennsylvania ISPs used only DNS or IP filtering, rather than URL filtering, to comply with the statute.²⁴⁴ Therefore, the court did not find URL filtering a feasible alternative to DNS or IP filtering.²⁴⁵

The Eastern District of Pennsylvania ultimately held that enforcement of the Act violated the First Amendment because the overblocking of innocent speech through IP and DNS filtering²⁴⁶ burdened protected speech without alleviating the harms addressed by the Act, namely child pornography, in a direct and material way.²⁴⁷ Although URL filtering would avoid overblocking, the court noted that the Act does not specify a required method of compliance.²⁴⁸ The court further found that the Act and the informal notice procedure constitute an unconstitutional prior restraint on speech.²⁴⁹ The First Amendment requires that a court make a final determination after an adversary hearing that the challenged content is not protected speech before removing such content from circulation.²⁵⁰ Therefore, the Act violates the First Amendment because it permits a judge to make that determination *ex parte*.²⁵¹ The court also held that

242. *Id.*

243. *Id.* at 643. Anonymous proxy servers hide the identity of the internet user and make it appear to the ISP routing the request as if the request is directed at the proxy server rather than the underlying URL to which the user actually seeks access. *Id.*

244. *Id.* at 630.

245. *Id.* at 652.

246. The court found that IP and DNS filtering by the Pennsylvania ISPs resulted in blocking more than 1,190,000 innocent websites in order to block less than 400 child pornography websites. *Id.* at 655.

247. *Id.* at 655–56.

248. *Id.* at 656.

249. “The term ‘prior restraint’ describes orders forbidding certain communications that are issued before the communications occur.” *Id.*

250. *See Freedman v. Maryland*, 380 U.S. 51, 58 (1965).

251. *Center for Democracy & Technology*, 337 F. Supp. 2d at 657. Removing material from circulation constitutes a prior restraint on speech, unless there is a judicial determination in an adversary proceeding that the material contains speech unprotected by the First Amendment. *Freedman*, 380 U.S. at 58. Thus, in addition to the *ex parte* judicial determinations made under the Act, the informal notices issued to ISPs under the Act also constitute prior re-

the Act violates the Dormant Commerce Clause²⁵² because the burden on interstate commerce imposed by overblocking innocent sites exceeds the local benefit of reducing sexual abuse of children.²⁵³

IV. A PROPOSED SOLUTION

Because of its effectiveness, URL filtering may provide a solution to enjoining foreign website operators like Otamedia from finding virtual safe havens to reach U.S. consumers. Although the *Center for Democracy & Technology* court found that URL filtering could be circumvented by using anonymous proxy servers, such filtering need not be perfect, but rather need only be reasonably effective to achieve its desired impact.²⁵⁴ Furthermore, in the context of using URL filtering to block websites like Otamedia that specifically target U.S. consumers, it would be impracticable to operate an online business that has become subject to URL filtering in the hopes that customers are computer-savvy enough to circumvent URL filtering. It would also be impracticable for cigarette websites to periodically change

straints because child pornography is removed from a website pursuant to the informal notice issued by law enforcement rather than a final determination by a judge after an adversary proceeding. *See Center for Democracy & Technology*, 337 F. Supp. 2d at 660.

252. Generally, “[t]he dormant Commerce Clause is a judge-made doctrine that prohibits states from regulating in ways that unduly burden interstate commerce.” Goldsmith & Sykes, *supra* note 200, at 786.

253. *Center for Democracy & Technology*, 337 F. Supp. 2d at 662. The court reached this holding by applying the *Pike* balancing test for determining whether a statute that does not facially discriminate against interstate commerce violates the Dormant Commerce Clause. Under the *Pike* balancing test, a state regulation violates the Dormant Commerce Clause if its burden on interstate commerce clearly outweighs its local benefits. *See Pike v. Bruce Church, Inc.*, 397 U.S. 137, 142 (1970). Using URL filtering *nationwide* to block foreign cigarette websites that infringe trademarks, evade taxes, or sell to minors would not raise Dormant Commerce Clause concerns because the Dormant Commerce Clause only applies to state law. *See Goldsmith & Sykes, supra* note 200, at 786.

254. *See Goldsmith & Sykes, supra* note 200, at 812 (“Regulatory slippage is a fact of life in real space and cyberspace. . . [One should not] assume that imperfections in Internet identification and filtering technology render these technologies useless.”).

their domain names to circumvent filtering since potential customers would have difficulty finding such sites.²⁵⁵

A federal regulatory system could be developed in which domestic ISPs would be required to use filtering technology to block U.S. internet users from accessing offshore websites that violate U.S. law.²⁵⁶ By blocking U.S. users from accessing such sites, U.S. court orders would not have to be enforced extraterritorially²⁵⁷ and offshore websites would be able to conduct activity that is legal in their own country but illegal in the United States.²⁵⁸ Thus, if the French court in *Yahoo!* had mandated the French ISPs to filter out Yahoo!'s Nazi memorabilia auction site, then Yahoo! could freely exercise its First Amendment rights in the United States while French users would be denied access to the same material, illegal in France.²⁵⁹

Government-mandated filtering should be limited to court orders to block a particular website from U.S. access rather than law enforcement officials unilaterally deciding which sites to block. In this way, a defendant-website would be given notice and an opportunity to be heard before a judicial determination

255. Cf. Russell B. Weekes, Note, *Cyber-Zoning a Mature Domain: The Solution to Preventing Inadvertent Access to Sexually Explicit Content on the Internet?*, 8 VA. J.L. & TECH. 4, *65 (2003) (arguing that relying on predetermined lists of IP addresses and domain names to filter out inappropriate content is problematic because "new sites are constantly coming online and content on old sites change frequently.").

256. Preventing internet users from accessing websites that conduct activity that is illegal in their own country allows countries to protect their values in their own territories. See Reidenberg, *supra* note 195, at 276.

257. Avoiding extraterritorial enforcement of U.S. law is consistent with "[t]he disfavored status within international law of unilateral state-based regulations that target extraterritorial actors [that] arises from the inherent challenges such actions represent to state sovereignty." Fagin, *supra* note 3, at 396.

258. Creating a site that complies with the local laws of all nations "may prove . . . daunting and would doubtless reduce Internet sites to a level of blandness that would eventually sap all interest in the Internet as an effective means of communication between nations." Greenberg, *supra* note 188, at 1215. Thus, by requiring ISPs to filter sites that violate U.S. law so that only U.S. users are denied access, "[c]ourts can limit the restrictive effect of regulation and incriminations to activities that directly affect welfare within their own jurisdiction. Unnecessary regulatory spillover can be avoided if restrictions to the free flow of information, for example, can be limited to a given set of geographically located users." Muir Watt, *supra* note 185, at 689.

259. See *supra* Part III.

that the website should be filtered from U.S. access.²⁶⁰ The use of government-mandated filtering should further be limited to enforcing judgments when traditional remedies prove ineffective.²⁶¹ For example, if Philip Morris wants to enjoin website operators like Otamedia from selling its brands without authorization and from infringing federal trademark law, it should continue litigating against them and seek a traditional prohibitory injunction.²⁶² In the event that the defendant-website refuses to comply with the injunction, Philip Morris could seek to modify the injunction by entry of a court order for domestic ISPs to filter the website from U.S. access.²⁶³ By narrowly limiting the use of government-mandated filtering, courts

260. This adversary hearing requirement is proposed because it would only be fair that defendant-websites have an opportunity to be heard before their website is denied the entire American audience. In addition, the adversary hearing requirement ensures that any government-mandated filtering does not block constitutionally protected speech. The Supreme Court held that “because only a judicial determination in an adversary proceeding ensures the necessary sensitivity to freedom of expression, only a procedure requiring a judicial determination suffices to impose a valid final restraint [on speech].” Freedman, 380 U.S. at 58. Without such procedural safeguards, government-mandated filtering may be a prior restraint on speech in violation of the First Amendment. *See id.* at 60.

261. “The historic injunctive process was designed to deter, not to punish.” *Hecht Co. v. Bowles*, 321 U.S. 321, 329 (1944). Therefore, defendant-websites that lose on the merits should be given the opportunity to comply with an injunction ordering the website to cease its illegal activity and only when the website refuses to comply should the more extreme remedy of filtering the site from U.S. access be accorded.

262. A “prohibitory injunction” is a court order that forbids or restrains an act. BLACK’S LAW DICTIONARY 349 (2d Pocket ed. 2001).

263. The Supreme Court has stated:

A sound judicial discretion may call for the modification of the terms of an injunctive decree if the circumstances, whether of law or fact, obtaining at the time of its issuance have changed, or new ones have since arisen. The source of the power to modify is of course the fact that an injunction often requires continuing supervision by the issuing court and always a continuing willingness to apply its powers and processes on behalf of the party who obtained that equitable relief.

Sys. Fed’n No. 91 v. Wright, 364 U.S. 642, 647 (1961). Therefore, if a defendant-website refuses to comply with a prohibitory injunction, those circumstances may warrant the modification of the injunction to include filtering the website from U.S. access.

can avoid unduly burdening the free flow of information over the internet and resistance from the regulated ISPs.²⁶⁴

In addition, government-mandated filtering should be on a nationwide level and only used to enforce federal law to avoid conflicting state laws or Dormant Commerce Clause concerns.²⁶⁵ Congress could establish an administrative agency under its Commerce Clause power to regulate ISPs that operate within the United States.²⁶⁶ Under this proposed administrative agency, all ISPs operating within the United States would be required to obtain a license; for ISPs that do not already use URL filtering or some other effective filtering method that does not result in overblocking, implementation of such filtering technology would be a requirement to obtain a license.²⁶⁷ In this

264. See Muir Watt, *supra* note 185, at 693.

265. Some courts have invalidated state statutes that regulate the internet on Dormant Commerce Clause grounds. See Goldsmith & Sykes, *supra* note 200, at 790–95. Also, filtering on a nationwide level would be much easier for ISPs than filtering websites for a particular state. See *Center for Democracy & Technology*, 337 F. Supp. 2d at 620 (noting that the Pennsylvania ISPs complained that blocking access to a website for Pennsylvania users only would be technically impossible, but blocking access nationwide would not be).

266. U.S. Const. art. I, § 8 (“Congress shall have the power . . . [t]o regulate Commerce with foreign Nations, and among the several States, and with the Indian Tribes.”). Under Congress’s Commerce Clause power, Congress may regulate the channels and instrumentalities of interstate commerce and activities that have a substantial effect on interstate commerce. *United States v. Morrison*, 529 U.S. 598, 609 (2000). Therefore, Congress has the power to regulate ISPs under the Commerce Clause because the innumerable business transactions that occur through an ISP’s servers make ISPs channels of interstate commerce, or alternatively, have a substantial effect on interstate commerce.

267. On the difficult question of who should pay for the URL filtering technology for ISPs to implement, one commentator argues that “[t]he State in which the effects are suffered obviously has a greater incentive to ensure watertight enforcement of its own restrictive regulation: it would certainly make more sense to leave it to filter the undesired data, to avoid the risk of under-enforcement.” Muir Watt, *supra* note 185, at 693. On the other hand, “some regulating States with legitimate reasons to filter data may lack the technological means or public resources to do so. . . . As a result, it might appear more equitable to burden private service providers generating revenue from activities directed at the regulating State rather than on the population of the regulating State.” *Id.* at 694. Perhaps the federal government could assist the existing U.S. ISPs with the cost of implementation as they transition into this proposed regulatory regime and thereafter require any new companies

way, the proposed agency would have a database of all the ISPs operating within the United States, and all the ISPs would have effective filtering technology in place. Upon a federal court order to filter a website from U.S. access, the proposed agency would notify the ISPs of the order. ISPs would be given a reasonable time period to filter the website. The proposed agency would monitor the ISPs to ensure compliance and conduct administrative hearings to issue civil penalties against ISPs that fail to comply with a court order.²⁶⁸ In the event that the filtering proves ineffective in that U.S. users can still access the website through a particular ISP, or an ISP's filtering results in overblocking of innocent sites, the ISP would be afforded a reasonable efforts affirmative defense to avoid penalty.²⁶⁹ The proposed agency would also have the task of periodically monitoring the URLs that have been filtered to check whether the website still violates the law.²⁷⁰ Periodic monitoring would ensure that URLs with innocent content would not be blocked from U.S. users. In the event that a website changes its content to comply with U.S. law, it can apply to the proposed agency to have a block removed. The proposed agency could then review the contents of the URL to check whether the content changes warrant removal of the block.

seeking to enter the ISP market to pay for the filtering technology themselves before obtaining a license.

268. Administrative agencies have legislative power to promulgate regulations, executive power to enforce their rules, and judicial power to adjudicate them. Administrative law judges hear cases brought by agency officials against those accused of violating the agency's regulations. ERWIN CHEMERINSKY, *CONSTITUTIONAL LAW: PRINCIPLES AND POLICIES* § 3.10.1 (2d ed. 2002).

269. See Muir Watt, *supra* note 185, at 690 ("[I]t would be fair to provide a 'reasonable efforts' defense to protect service providers who have taken care to comply.").

270. See Weekes, *supra* note 255, at *65 (arguing that for reliable efficacy of filtering based on lists of IP addresses and domain names, the lists must be updated constantly because content on sites changes frequently). Cf. *Center for Democracy & Technology*, 337 F. Supp. 2d at 662 (preventing future content from being displayed at a URL based on the fact that the URL contained illegal material in the past would be an unconstitutional prior restraint on speech).

V. CONCLUSION

Over the course of the internet's brief history, it has experienced unimagined growth. Internet users worldwide have enjoyed the benefit of the free flow of information as well as access to a global market with the click of a button. However, as the internet experiences this amazing expansion, national governments justifiably must seek ways to protect their citizens from the ever-increasing harms lurking within this global network. While this Note specifically addressed the harms of online cigarette sales, governments have drawn their attention to the many other dangers now found on the internet.²⁷¹ However, because of the anonymity and geographical indeterminacy afforded by the internet's architecture, smaller actors can seek virtual safe havens in bad faith to avoid traditional enforcement techniques and flout foreign judgments against them, just as Otamedia has done with its online cigarette operation.

Philip Morris and the Southern District of New York believed that they found an effective means of reaching such bad faith small actors by seizing the virtual doors of Otamedia's website.²⁷² However, as evidenced by Otamedia's actions, under the current structure of the DNS, where one door is sealed, many others can be opened. Seeking domain names to enjoin extraterritorial conduct does not serve as an effective remedy because the DNS is in a transitional and decentralized stage, making the enforceability of a foreign judgment ordering the transfer of a domain name uncertain. Furthermore, the remedy of seizing the domain name of an offshore website may not be a fair solution when the conduct of the website is perfectly legal in the country where it is physically located, but happens to be illegal in the country ordering that the domain name be seized.²⁷³

271. See, e.g., *United States v. American Library Ass'n, Inc.*, 539 U.S. 194 (2003) (material harmful to children); *United States v. Ansaldi*, 372 F.3d 118 (2d Cir. 2004) (date-rape drug); *United States v. Nelson*, 383 F.3d 1227 (10th Cir. 2004) (illegally sold prescription drugs); *United States v. D'Ambrosia*, 313 F.3d 987 (7th Cir. 2002) (gambling); *United States v. Dockery*, 401 F.3d 1261 (11th Cir. 2000) (child pornography); *People v. Davis*, 353 Ill. App. 3d 790 (Ill. App. Ct. 2004) (identity theft and computer fraud).

272. See *Philip Morris*, 331 F. Supp. 2d at 245.

273. See, e.g., *Yahoo!, Inc. v. La Ligue Contre Le Racisme et L'Antisemitisme*, 169 F. Supp. 2d 1181 (N.D. Cal. 2001).

Therefore, this Note's proposed solution of mandating ISPs to filter a website from U.S. access avoids the difficulties of enforcing judgments extraterritorially or enjoining bad faith small actors who find virtual safe havens within the DNS. Such filtering, used in conjunction with traditional enforcement techniques, would ensure compliance with U.S. judgments and make evasion by small actors too costly.²⁷⁴ However, the filtering cases discussed above teach us that any government-mandated filtering from within the United States must be carefully crafted to avoid unduly burdening protected speech or interstate commerce.²⁷⁵ Overuse of filtering within the United States would also raise concerns about the overall quality and usefulness of the internet as an informational tool.²⁷⁶

Although URL filtering has yet to be widely implemented by ISPs in the United States,²⁷⁷ filtering technology has developed rapidly. As with any new technology, over time, the effectiveness of filtering technology will increase while its cost will decrease.²⁷⁸ Although most ISPs may not have the means or the willingness to implement such technology today, they undoubtedly will in the very near future. As a result, national governments will find they have an effective technological means of

274. See Goldsmith & Sykes, *supra* note 200, at 812 ("Computer-savvy users might always be able to circumvent identification technology, just as burglars can circumvent alarm systems. But they would do so at a certain cost, and this cost would be prohibitive for most."); see also Lawrence Lessig, *The Zones of Cyberspace*, 48 STAN. L. REV. 1403, 1405 (1996) ("A regulation need not be absolutely effective to be sufficiently effective. It need not raise the cost of the prohibited activity to infinity in order to reduce the level of that activity quite substantially.").

275. See generally Patrick M. Garry, *The Flip Side of the First Amendment: A Right to Filter*, 2004 MICH. ST. L. REV. 57 (2004) (discussing First Amendment concerns raised by government-mandated internet filtering in public libraries); Goldsmith & Sykes, *supra* note 200, at 790–95 (reviewing cases which invalidate state internet regulations on Dormant Commerce Clause grounds).

276. See Greenberg, *supra* note 188, at 1216 (arguing that over-regulation of the internet could result in "dumbed down" versions of websites).

277. See *Center for Democracy & Technology v. Pappert*, 337 F. Supp. 2d 606, 630 (E.D. Pa. 2004).

278. See Goldsmith & Sykes, *supra* note 200, at 812 ("[T]here is good reason to believe that geographical identification technology will be precise and inexpensive in the near future.").

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regulating online activity within their own territory without
impeding the free flow of information globally.

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JUDGING THE JUDGES: DISPUTE RESOLUTION AT THE OLYMPIC GAMES

I. INTRODUCTION

During the men's gymnastics individual event final at the 2004 Athens Games, Russian gymnast Aleksei Nemov dismounted from the high bar to the cheers of the crowd.¹ Once Nemov's low scores were posted, those cheers turned to an angry roar that rocked the Olympic Indoor Hall, halting competition for ten minutes.² Then, suddenly, the scores changed.³ In the midst of the chaos, two of the six judges had reconsidered their decisions in an apparent attempt to assuage the crowd.⁴ Nemov went on to place fifth.⁵

Intense media coverage of such judging mishaps has overshadowed the athletics at recent Olympic Games.⁶ Perhaps it is the inevitable result of the 2002 Salt Lake City Games, where a double gold medal was awarded after a French figure skating judge admitted accepting a bribe.⁷ Perhaps it is the result of a

1. Rachel Cohen, *Accountable Mistakes Happen, but Now Judges Hear it When They Mess Up*, DALLAS MORNING NEWS, Aug. 25, 2004, at 4CC.

2. *Id.*

3. *Id.*

4. *See id.* The fallout from such unprofessional conduct by the Malaysian and Canadian judges would have been worse had Nemov managed to win a medal with his inflated scores. Instead, he came in fifth. *See id.*

5. *Id.*

6. *See* Cohen, *supra* note 1; Jere Longman, *Olympics: The Scorekeepers*, N.Y. TIMES, Feb. 15, 2002, at D1 (profiling a Salt Lake City judge who withdrew, unnerved by charges of political and cultural biases aimed at competition judges); Candus Thomson & Randy Harvey, *An Abundance of Objections is Testing Games' Machinery for Settling Protests*, BALTIMORE SUN, Aug. 24, 2004, at 1A (noting the challenges to judging calls in gymnastics, swimming, equestrian and sailing competitions in Athens). *See also* Selena Roberts, Editorial, *IOC Leadership is Lacking a Pulse. Is There a Doctor in the House?*, N.Y. TIMES, Aug. 29, 2004, at Sports 8 (criticizing the International Olympic Committee for ignoring judging problems in order to avoid confrontation with the international sports federations).

7. *See* Christopher Clarey, *Skating Federation Turns Its Focus to Judging Judges*, N.Y. TIMES, Apr. 29, 2002, at D1. At the 2002 Salt Lake City Games, French figure skating judge Marie Reine Le Gougne confessed that she had been pressured by the president of her national skating federation to favor the Russians over the Canadians in the pairs figure skating event. In response, the International Olympic Committee made the unprecedented decision to

more litigious society in general; most delegations arrive at the Olympic Village with lawyers in tow.⁸ Perhaps the focus has been sharpened because sporting stakes, especially at the Olympics, are higher: prize money, commercial endorsements and appearance fees can add up to millions of dollars for medalists.⁹ Perhaps it is as simple as technology—judging errors are easy to spot thanks to video replay.¹⁰ Whatever the reason, Olympic disputes are more heated and high profile than ever before.

The Athens Games was no exception. The fallout from the Nemov incident was quickly obscured by a more contentious controversy, the gold medal fight between American Paul Hamm and South Korean Yang Tae Young.¹¹ Yang was mistakenly docked one-tenth of a point at the start of his parallel bars routine during the men's gymnastics all-around competition.¹² Had he been given the proper starting score—and had

award a duplicate set of gold medals to the Canadian team. *Id.* The controversy prompted the International Skating Union to implement an improved scoring system. Selena Roberts, *Skating Group Proposes a New System of Judging*, N.Y. TIMES, Feb. 19, 2002, at A1.

8. See Peta Bee, Editorial, *Olympic Ideals Taken Over by Tantrums and Tears*, GUARDIAN (London), Aug. 30, 2004, at 25 (criticizing “sore-loser athletes” for accusing judges of cheating, rule-breaking and favoritism). In recent years, with doping, performance-enhancing drugs, videotaping of events, etc., athletes have become more aware of their rights and the ways to protect them. JAMES A.R. NAFZIGER, INTERNATIONAL SPORTS LAW 64 (2d ed. 2004).

9. See Melissa R. Bitting, *Mandatory, Binding Arbitration for Olympic Athletes: Is the Process Better or Worse for 'Job Security'?*, 25 FLA. ST. U. L. REV. 655, 664 (1998) (noting that gymnast Kerri Strug and sprinter Michael Johnson were projected to make \$2 million each in 1996, based on their performances in the Atlanta Games).

10. The use of technology to resolve controversial field-of-play calls in international competition is less common than in professional sports, but it is growing, especially in track-and-field, international wrestling and cricket. In contrast, the international football and tennis federations have banned the use of video replay. NAFZIGER, *supra* note 8, at 116–20.

11. See Bee, *supra* note 8.

12. Candus Thomson, *Arbiters Hear Appeal of Men's All-Around*, BALTIMORE SUN, Sept. 28, 2004, at 2E. In gymnastics, the highest possible point value of a routine is determined at the outset, based on the level of difficulty of the planned routine, in accordance with the International Gymnastics Federation's Code of Points. See *id.* Yang's routine should have been given a higher point value due to its difficult elements. See Alan Abrahamson & Diane Pucin, *Hamm Takes Issue with Medal Dispute*, L.A. TIMES, Aug. 23, 2004, at D1.

the rest of the evening's competition played out the same—Yang would have beaten Hamm to take the gold by 0.051 of a point.¹³ The controversy stemmed not only from the judging error made during the competition, but also from the International Gymnastics Federation's response to the aftermath.¹⁴

Since 1996, all Olympic disputes have been submitted to an independent arbitral tribunal, the International Court of Arbitration for Sport (CAS), for mandatory, binding arbitration.¹⁵ The International Olympic Committee (IOC), which organizes the Games, instituted this policy after a rash of lengthy multi-million dollar battles in various domestic courts in the 1990s.¹⁶ One notorious example was the case of American track star and Olympic gold medallist Harry "Butch" Reynolds.¹⁷ The governing body of international track-and-field competitions, the International Amateur Athletic Federation (IAAF), suspended Reynolds for two years in 1990 for alleged steroid use, effectively ending his chance to compete in the 1992 Olympic Games.¹⁸ Reynolds filed an appeal in a U.S. court—a move that

13. Thomson, *supra* note 12.

14. The Yang case is discussed in depth, *infra* Part III.A. For now it is enough to note that the International Gymnastics Federation did not handle the situation in accordance with its own rules and regulations. The much-publicized controversy did not subside until months later, when the Court of Arbitration for Sport issued a ruling denying South Korea's appeal. See *CAS Turns Down Yang's Petition*, KOREA TIMES, Oct. 23, 2004.

15. OLYMPIC CHARTER R. 74, available at http://multimedia.olympic.org/pdf/en_report_122.pdf (in force as of Sept. 1, 2004). Rule 74 mandates that all Olympic participants submit disputes to the CAS, an international organization of sports arbiters that hears both Olympic and non-Olympic sporting disputes, including private commercial claims. Matthieu Reeb, *The Court of Arbitration for Sport*, History, CAS website, at <http://www.tas-cas.org/en/histoire/frmhist.htm> (last visited Apr. 14, 2005).

16. See Anthony T. Polvino, *Arbitration as Preventative Medicine for Olympic Ailments: The International Olympic Committee's Court of Arbitration for Sport and the Future for the Settlement of International Sporting Disputes*, 8 EMORY INT'L L. REV. 347, 347 (1994). See also Steve Buffery, *Atlanta '96 Column*, TORONTO SUN, June 9, 1996, at 16 ("It seems any time an American athlete tests positive, a local court instantly reinstates them and then they launch a multi-million dollar lawsuit."). Just before the 1996 Atlanta Games, American heptathlete Gea Johnson filed a \$12 million lawsuit against the international track-and-field federation for banning her for steroid use. *Id.*

17. See Polvino, *supra* note 16, at 347.

18. See Bitting, *supra* note 9, at 660.

sparked jurisdictional conflicts between the U.S. Olympic Committee and the IAAF and led to fifteen different stages of litigation and arbitration.¹⁹ Despite the IAAF's refusal to acknowledge U.S. jurisdiction, even after the Supreme Court intervened, a district court finally ruled in Reynolds' favor and awarded him a \$27.3 million default judgment that the IAAF refused to pay.²⁰ Reynolds' victory, however, came too late. The 1992 Olympic Games had come and gone in the four years it took for him to get through litigation.²¹

The Reynolds saga illustrates the problem of bringing suit in domestic courts in matters that implicate the entire Olympic Movement, an interconnected web of international, national, governmental and non-governmental institutions, each with its own statutes, jurisdiction and procedures.²² The IOC had recognized the need for a tribunal equipped to handle such complexity when it created the CAS in the early 1980s to arbitrate disputes voluntarily submitted to it by international sports bodies; however, in the wake of the Reynolds debacle, the IOC recruited the CAS to be the official arbiter of the Olympics.²³ To meet the special needs of the Games, the CAS created an ad hoc Division, a small group of arbiters installed in each Olympic Village to issue final, binding decisions within twenty-four hours of the complaint.²⁴ Forcing Olympic participants to ac-

19. See James A.R. Nafziger, *Dispute Resolution in the Arena of International Sports Competition*, 50 AM. J. COMP. L. 161, 172 (2002). See also Bitting, *supra* note 9, at 661.

20. Polvino, *supra* note 16, at 354–56 (“When asked if the award to Reynolds would be paid, [IAAF President Primo] Nebiolo stated: ‘Never, never . . . he can live 200 years.’”). *Id.* at 356.

21. See *id.* at 347. This was the first time the U.S. Supreme Court had ever ruled on an Olympic matter involving competition. Justice Stevens, in his capacity as a circuit Justice, granted Reynolds' application for a stay of the Sixth Circuit's order barring the IAAF from interfering with Reynolds' eligibility for the 1992 U.S. Olympic Trials. The stay was later upheld by the entire Supreme Court. *Id.* at 353.

22. The Olympic Movement is the dominant international sports institution and provides the framework for world competitions. See Nafziger, *supra* note 19, at 162.

23. See Reeb, *supra* note 15, History of the CAS § 1.

24. *Id.* The CAS's ad hoc Division, explained in detail, *infra* Part II.C, is a decentralized, temporary branch of the CAS adapted to fit the needs of Olympic participants who want disputes resolved in time for the remedy to be of use during the Games. The CAS has ad hoc branches not only at the Olym-

cept the CAS as their final legal recourse was a novel, risky idea.²⁵ To effectuate the change at the 1996 Atlanta Games, the IOC required that all athletes, coaches and officials contractually waive their right to sue in civil courts.²⁶ It introduced a clause into the Eligibility Entry Form binding the signer to the arbitration scheme.²⁷ The version for the 2004 Athens Games reads:

I agree that any dispute, controversy or claim arising out of, in connection with, or on the occasion of, the Olympic Games, not resolved after exhaustion of the legal remedies established by . . . the International Federation governing my sport . . . and the IOC, shall be submitted exclusively to the Court of Arbitration for Sport (CAS) for final and binding arbitration The CAS shall rule on its jurisdiction and has the exclusive power to order provisional and conservatory measures. The decisions of the CAS shall be final and binding. I shall not institute any claim, arbitration or litigation, or seek any form of relief, in any other court or tribunal.²⁸

Although there was doubt that the 11,000 athletes from 197 countries who showed up to compete in Atlanta would willingly sign away their right to sue, the implementation of the ad hoc Division was largely uneventful.²⁹ For most Olympic partici-

pics, but also at the Commonwealth Games and the European Football Championships. *Id.*

25. The IOC amended the Olympic Charter to add Rule 74, which directs all disputes to arbitration by the CAS. OLYMPIC CHARTER R. 74.

26. See Urvashi Naidoo & Neil Sarin, *Dispute Resolution at Game Time*, 12 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 489, 492–93 (2002) (describing the contractual obligations of Olympic participants).

27. *Id.* at 493. However, the CAS allows for appeal of its decisions to the Swiss Federal Tribunal, a domestic Swiss court, on limited grounds. *See id.*

28. Eligibility Entry Form of the 2004 Athens Olympic Games, SPORTS ENTRIES AND QUALIFICATIONS SYSTEM 8, at http://www.athens2004.com/Files/files/Pdf-Sports/SEQ_MASTER_1_EN.pdf (last visited Apr. 14, 2005). In addition to the entry form, the CAS's jurisdiction is asserted in Rule 74 of the Olympic Charter; furthermore, many sports bodies have written CAS jurisdiction into their by-laws. GABRIELLE KAUFMANN-KOHLER, ARBITRATION AT THE OLYMPICS: ISSUES OF FAST-TRACK DISPUTE RESOLUTION AND SPORTS LAW 16, 24–25 (2001).

29. See Bitting, *supra* note 9, at 663; Buffery, *supra* note 16 (discussing the controversy over the newly-required waiver); Mike Fish, *Atlanta Grand Prix; Drug Testing; IAAF Talking Tough in Johnson Case*, ATL. J. & CONST., May 18, 1996, at 9E (quoting Butch Reynolds as agreeing to the waiver, along with

pants, there is no other viable option.³⁰ Contesting mandatory arbitration in a court of law, as either unconscionable or as a contract of adhesion, might mean a drawn-out court battle reminiscent of Reynolds'.³¹ Furthermore, most athletes' financial support from their national committees to train and compete is contingent upon their Olympic eligibility.³² For the serious medal contenders, the Olympic Games mean prize monies and lucrative endorsements, not to mention a chance to fulfill a dream.³³ With so much at stake, an athlete is unlikely to forfeit competition because of an unwillingness to submit to the CAS.

Because Olympic participants waive a powerful right to sue in domestic courts, the IOC's arbitration scheme must be a worthy substitute.³⁴ The introduction of the ad hoc Division has largely been a success, but problems persist.³⁵ The IOC has not devoted enough attention to the international federations' internal appeals systems—morasses of rules governing how members can protest decisions.³⁶ Internal appeals are integral to the IOC's larger arbitration scheme because a claimant cannot petition the CAS without first exhausting the offending federation's own remedies; furthermore, the CAS must consider the federation's applicable rules and regulations as part of the law governing the dispute.³⁷

eight-time gold medallist Carl Lewis, and noting track star Michael Johnson's hesitation to sign).

30. See Bitting, *supra* note 9, at 665 (discussing athletes' financial dependence on Olympic eligibility).

31. See *id.* at 669 (analogizing the eligibility clause to an employment contract, subject to common law defenses).

32. *Id.* at 665.

33. See *id.* at 664.

34. See NAFZIGER, *supra* note 8, at 35–36 (noting that most issues in international sports are procedural—how to expeditiously and fairly resolve disputes—not disagreements over fundamental values or public policy).

35. See *infra* Part III.

36. See HON. MICHAEL J. BELOFF ET AL., SPORTS LAW §§ 2.38–39 (1999) (noting that the notoriously murky rules of sports organizations are often drafted by non-lawyers and even those that are lawyer-drafted are not necessarily more clear); KAUFMANN-KOHLER, *supra* note 28, at 100 (Kaufmann-Kohler, an ad hoc arbiter in Atlanta, Nagano and Sydney, criticizes federation rules as being “incomplete, incoherent and badly drafted”).

37. The CAS's rules concerning the ad hoc Division are set forth in the ARBITRATION RULES FOR THE OLYMPIC GAMES, available at <http://www.tas-cas.org/en/pdf/reglementJO.pdf> (in force as of Dec. 17, 2003). Article 1 reads:

If a federation's internal remedies are inadequate, it becomes acutely obvious whenever an athlete challenges a decision to the CAS.³⁸ Although the CAS does not review technical determinations, it does evaluate whether the rule at issue, or its application, was arbitrary or illegal.³⁹ This requires analyzing the circumstances surrounding an alleged error, examining the federation's appeals mechanism, and determining whether it worked appropriately in the particular case.⁴⁰ More often than not, such an inquiry results in the CAS's criticism of the federation's rules, procedures or policies.⁴¹ While the federations themselves used to be the final arbiters of their members' challenges, the CAS is now in that position; its independent review has exposed many internal failings, namely, appeals systems that are inefficient, unpredictable and inadequate.⁴²

Part II of this Note describes the framework of the IOC's arbitration scheme, including the organization of the CAS and its specialized Olympic branch, the ad hoc Division. Part III looks at the persisting problem of the international federations'

In the case of a request for arbitration against a decision pronounced by the IOC, [a National Olympic Committee], an International Federation or an Organizing Committee for the Olympic Games, the claimant must, before filing such request, have exhausted all the internal remedies available to him/her pursuant to the statutes or regulations of the sports body concerned, unless the time needed to exhaust the internal remedies would make the appeal to the CAS ad hoc Division ineffective.

Id. art. 1. "The Panel shall rule on the dispute pursuant to the Olympic Charter, the applicable regulations, general principles of law and the rules of law, the application of which it deems appropriate." *Id.* art. 17.

38. Judging challenges are the majority of cases brought to the CAS during the Olympic Games. Out of six ad hoc decisions from Athens, two involved doping suspensions and four involved field-of-play decisions. All pitted players and/or their national committees against international federations. The ad hoc Division's most recent cases are posted under Case Law, CAS website, at <http://www.tas-cas.org/en/juris/frmjur.htm> (last visited Apr. 14, 2005).

39. See Nafziger, *supra* note 19, at 173. See also KAUFMANN-KOHLER, *supra* note 28, at 25–26 (noting that arbitrators will refrain from interfering with the determinations made on the playing field by judges, referees, umpires, or other officials, unless the rules have been applied in bad faith or maliciously).

40. See BELOFF ET AL., *supra* note 36, §§ 7.116–.127, 8.108 (setting out the legal principles the CAS uses to evaluate disputes).

41. See *infra* Part III.

42. See *id.*

flawed appellate processes. Part IV suggests what might be done to improve the situation and to guarantee Olympic participants the best substitute possible for their waived right to sue. It proposes that the IOC create and implement a model internal appeals system for the federations to adopt, along the lines of the anti-doping rules promulgated by the IOC and the World Anti-Doping Agency. Part V posits that a uniform system would contribute to the developing body of *lex sportiva*, or sports law, as well as the IOC's and the CAS's positions as stewards of this movement.

II. THE PLAYERS IN THE IOC'S SCHEME

A. *The International Olympic Committee and the Olympic Movement*

The IOC, a non-governmental, non-profit international organization, was founded in 1894 by French educator Pierre de Coubertin, who wished to revive the ancient Olympic Games in the modern world.⁴³ More than a century later, the IOC leads the Olympic Movement, which is comprised of international sports federations, national Olympic committees,⁴⁴ organizing committees of the Olympic Games, national athletic associations, and "other organizations and institutions as recognized by the IOC," such as the World Anti-Doping Agency.⁴⁵ The IOC

43. OLYMPIC CHARTER pmb1. In 1896, the first modern Olympics was held in Athens. *Id.*

44. The national Olympic committees (NOC's) are composed of national sports organizations affiliated with international federations. They oversee sports activity on the national level and represent their delegations at IOC-sponsored world competitions. The NOC's are entrusted with deciding which athletes will compete from those nominated by various national federations; they ensure that athletes comply with all provisions of the Olympic Charter; they provide for equipment, transportation and accommodation of athletes; and they determine the clothing and uniforms to be worn. OLYMPIC CHARTER R. 28–29.

45. The World Anti-Doping Agency, discussed *infra* Part IV.A, is an independent agency that oversees and administers the IOC-sponsored anti-doping policy. Other examples of sports institutions recognized by the IOC as Olympic partners are the CAS, the International Committee for Fair Play, the International Paralympic Committee, and the World Olympians Association, to name a few. For a list of all the Olympic partners, see the IOC website at http://www.olympic.org/uk/organisation/actions/index_uk.asp (last visited Apr. 14, 2005).

coordinates and monitors all of these diverse bodies in its efforts to organize elite sporting events and to promote ethics in sports.⁴⁶ In order to be recognized by the IOC—a requirement of participation in IOC-sanctioned events including the Games—these entities must ensure that their statutes, practices and activities conform to the Olympic Charter.⁴⁷ They must also comply with the obligations imposed upon them by other governing umbrella organizations.⁴⁸ For example, the German Equestrian Association has contractual obligations to the International Equestrian Federation, and both entities are bound to the IOC through the Olympic Charter.⁴⁹ Beyond observing the reciprocal rights and duties created by these obligations, the sports bodies operate autonomously.⁵⁰ Therefore, the rights and obligations of any participant in world sports, including clubs, athletes, judges, referees, coaches and sports technicians, are determined by overlapping contracts, codes and statutes.⁵¹

46. OLYMPIC CHARTER R. 2. The IOC is recognized in international law as a corporation with perpetual succession; therefore, it can act as a legal person on the international plane. C. Christine Ansley, *International Athletic Dispute Resolution: Tarnishing the Olympic Dream*, 12 ARIZ. J. INT'L & COMP. LAW 277, 283 (1995). It maintains its authority by retaining all rights relating to the organization, marketing, broadcasting and reproduction of the Olympic Games, the high visibility of which places the IOC at the forefront of the international sports world. See OLYMPIC CHARTER R. 6–14; NAFZIGER, *supra* note 8, at 4. However, the IOC is a non-governmental organization with no real method of compelling governmental compliance. It influences the development of international sports law through “rules, regulations and decisions [that] help determine state practice and best articulate the accepted regime of international sports law.” *Id.* at 5.

47. “Any person or organisation belonging in any capacity whatsoever to the Olympic Movement is bound by the provisions of the Olympic Charter and shall abide by the decisions of the IOC.” OLYMPIC CHARTER R. 1(2).

48. See BELOFF ET AL., *supra* note 36, §§ 2.31–.32.

49. *Id.*

50. See Polvino, *supra* note 16, at 348–52; BELOFF ET AL., *supra* note 36, §§ 1.10, 2.32. See also NAFZIGER, *supra* note 8, at 66 (comparing domestic suits with private international lawsuits that raise complicated questions of jurisdiction, choice of law, and recognition of judgments).

51. See BELOFF ET AL., *supra* note 36, § 2.32.

B. The International Sports Federations

The IOC leaves the administration of each Olympic event to the international federation governing that particular sport.⁵² These powerful non-governmental bodies run competitions at the world level.⁵³ Each federation has its own set of technical rules governing the sport, procedural rules for internal appeals, and sanctions for athletes, coaches and officials.⁵⁴ The federations select judges, referees and other technical persons, establish the rules of judging and timing, set the results standards, and certify the final results and rankings.⁵⁵ There are currently thirty-five federations that comply with the Olympic Charter and are allowed to participate in the Olympic Games, other IOC-sponsored events, and the annual meeting of the IOC Executive Board.⁵⁶ In addition, the federations form various associations that meet to discuss common problems, to work out calendars of events and to combine forces when dealing with the IOC.⁵⁷

C. The Court of Arbitration for Sport and its ad hoc Division

The CAS was formally established as an international sports tribunal in 1983, but it underwent a defining reformation in 1994 after the Swiss Federal Tribunal drew attention to the CAS's dependence on the IOC and potential problems of impartiality.⁵⁸ In response, the IOC developed an independent body,

52. OLYMPIC CHARTER R. 27.

53. See Bitting, *supra* note 9, at 659.

54. *Id.*

55. See OLYMPIC CHARTER R. 27.

56. International Sports Federations, IOC website, at http://www.olympic.org/uk/organisation/if/index_uk.asp (last visited Apr. 14, 2005). There are over 100 international federations, however, only thirty-five are IOC-recognized as Olympic participants. See *id.* For a list of all the international federations, see the General Association of International Sports Federations website, at <http://www.agfisonline.com/en/members.phtml> (last visited Apr. 14, 2005).

57. The Olympic Charter gives the federations the right to "formulate proposals addressed to the IOC concerning the Olympic Charter and the Olympic Movement; collaborate in the preparation of Olympic Congresses; and participate, on request from the IOC, in the activities of the IOC Commissions." OLYMPIC CHARTER R. 27.

58. Reeb, *supra* note 15, History of the CAS § 2. In its original form, the CAS was almost entirely financed by the IOC; the IOC executive board was

the International Council of Arbitration for Sport (ICAS), to control the CAS's operations and financing in place of the IOC.⁵⁹ This change went far in establishing the CAS's credibility as it continued to expand.⁶⁰ In 1996 the CAS created two offices in Denver and Sydney, in addition to its permanent seat in Lausanne, Switzerland.⁶¹ In its short existence, the CAS has heard some 576 cases, resulting in more than 314 awards and sixteen advisory opinions.⁶² It has become a central mechanism for resolving international sports disputes brought by individuals, federations and national governing bodies, ranging from contractual (the validity of vendor contracts) to fundamental (the eligibility or suspension of athletes).⁶³ One of the reasons for its rapid growth is that many federations have granted the

the only body with the power to change the CAS statute; and the IOC and its president could together appoint thirty members of the CAS. *Id.*

59. *See id.* § 4. However, it should be noted that the CAS and ICAS still have a connection to the IOC and other sports organizations. The twenty members of ICAS, a mix of international jurists who are independent of sports organizations, are appointed by the associations of international federations, the NOC's and the IOC. Furthermore, as of 2001, about seventy-five percent of the budget of ICAS and CAS was funded in equal shares by the same organizations. The rest was paid by private companies using the CAS to arbitrate contract-based disputes. KAUFMANN-KOHLER, *supra* note 28, at 41–42.

60. The CAS solidified its two main arbitration divisions, one for ordinary arbitration, where the CAS acts as the court in the sole instance, and the other division for appeals arbitration where the CAS hears appeals of final rulings. *See Reeb, supra* note 15, Organisation and Structure of ICAS and CAS § 3. In addition to this growth, the CAS has been approved by several domestic courts. The Court of Appeals of Munich, Germany, the Swiss Supreme Court and the New South Wales Court of Appeals, among others, have held that the CAS is a "true" arbitral tribunal, i.e., a tribunal with a constitution over which no party exercises an overreaching influence, in contrast with the internal tribunals of sports federations. KAUFMANN-KOHLER, *supra* note 28, at 3–4, 16 n.42.

61. *Reeb, supra* note 15, Organisation and Structure of ICAS and CAS § 3. The decentralized locations were created to provide sports participants from around the world with greater accessibility to the CAS. *Id.*

62. These statistics reflect the complaints submitted to the CAS as of December 2003. Statistics, CAS website, at <http://www.tas-cas.org/en/stat/frmstat.htm> (last visited Apr. 14, 2005).

63. Nafziger, *supra* note 19, at 167. The CAS also provides for mediation services, where the parties choose their own mediator who does not craft a solution like an arbitrator does, but instead facilitates an environment where the parties can reach their own compromise position. *See Reeb, supra* note 15, Organisation and Structure of the ICAS and CAS § 1.

CAS compulsory jurisdiction by including mandatory arbitration clauses in their business contracts.⁶⁴

The ad hoc Division, the twenty-four hour arbiter of Olympic disputes, has been tailored to fit the needs of the Olympic Games, i.e., to be “simple, flexible and free of charge.”⁶⁵ A claimant disputing a decision by the IOC, a federation or a national committee, who has exhausted the organization’s internal remedies,⁶⁶ must present a written complaint to the Division stating the claim, legal arguments and requested relief.⁶⁷ There is then a hearing before a panel of three Division arbiters.⁶⁸ They are all neutral third parties with legal training and proven expertise in sports law.⁶⁹ The Division considers the organization’s constitution, its powers over the claimant’s person or property, its adherence to the principles of good faith and general contract law, and its compliance with procedural fairness.⁷⁰ It resolves the dispute “pursuant to the Olympic Charter, the applicable regulations, general principles of law and the rules of law, the application of which it deems appropriate.”⁷¹

64. See Nafziger, *supra* note 19, at 166–68. Like the IOC, many federations have provisions in their contracts binding participants in federation-sanctioned events to arbitration. *Id.*

65. Reeb, *supra* note 15, Decentralised CAS Offices and the Ad Hoc Divisions para. 2. The Division’s jurisdiction includes “any disputes covered by Rule 74 of the Olympic Charter, insofar as they arise during the Olympic Games or during a period of ten days preceding the Opening Ceremony of the Olympic Games.” ARBITRATION RULES FOR THE OLYMPIC GAMES art. 1.

66. ARBITRATION RULES FOR THE OLYMPIC GAMES art. 1.

67. *Id.* art. 10.

68. *Id.* arts. 11–12. In Atlanta, the ad hoc Division was composed of two co-presidents and twelve arbiters chosen from the more than 150 arbiters of the CAS, although the size varies with the competition. Reeb, *supra* note 15, Decentralised CAS Offices and the Ad Hoc Divisions para. 2. In Nagano, for example, the number of arbiters was reduced to six. *Id.* para. 3. However, to save time and reduce the risk of arbiters being challenged, the parties are not allowed to choose which arbiters will hear their particular case. KAUFMANN-KOHLER, *supra* note 28, at 43.

69. ARBITRATION RULES FOR THE OLYMPIC GAMES art. 12. An effort is made to choose an arbiter who is an expert in the particular sport in contention. Rt. Hon. Sir Philip Otton, *Sport–Private Grief or Public Prurience*, The Master of the Livery’s Annual Lecture before the Worshipful Company of Arbitrators ¶ 45 (Mar. 30, 2004), at http://www.arbitratorscompany.org/pdfs/Masters_Lecture_2004.pdf.

70. Nafziger, *supra* note 19, at 168.

71. ARBITRATION RULES FOR THE OLYMPIC GAMES art. 17.

The Division has two options at the close of arbitration, either to make a final award or to refer the dispute to arbitration by the full CAS, in which case it will grant preliminary relief.⁷² While this latter option works against the idea of the ad hoc Division as a quick arbiter,⁷³ some cases require removal to the CAS because of the claimant's "request for relief, the complexity of the dispute, the urgency of its resolution, the extent of the evidence required and of the legal issues to be resolved"⁷⁴ The Division's decisions are final and binding, with leave to appeal to the Swiss civil courts on very limited grounds, such as lack of jurisdiction, violation of elementary procedural rules, or incompatibility with public policy.⁷⁵

III. CAS VERSUS THE FEDERATIONS

While the CAS has carefully developed and maintained its rules and procedures in order to be seen as a fair and legitimate arbitral body, the federations have yet to conform to similar standards. The IOC needs to devote as much attention to the federations' appellate structures as it has to cultivating the credibility and effectiveness of the CAS. The current state of affairs was highlighted in two CAS decisions stemming from the 2004 Athens Games. The first was the aforementioned controversy between South Korea and the International Gymnastics Federation (FIG).⁷⁶ The second involved the United States, France, Germany and the United Kingdom in a dispute over the International Equestrian Federation's (FEI) medalling decision.⁷⁷ Not for the first time, the CAS drew attention to the flaws in the federations' internal processes, specifically the fail-

72. *Id.* art. 20(a)–(b).

73. *Id.* art. 18 (requiring resolution within twenty-four hours of the complaint in all but exceptional cases).

74. *Id.* art. 20(a). For example, in the case of the South Korean gymnastics delegation's appeal to the CAS, the parties were not prepared to argue on such short notice. They wanted to collect affidavits, depositions, etc., so the Division referred the proceedings to the CAS. *See infra* Part III.A.

75. Presentation, CAS website, at <http://www.tas-cas.org/en/present/frmpres.htm> (last visited Apr. 14, 2005).

76. Yang Tae Young v. FIG, CAS 2004/A/704 (Oct. 21, 2004), at <http://www.tas-cas.org/en/pdf/yang.pdf>.

77. CNOSF, BOA, USOC v. FEI NOCG, CAS OG 04/007 (Aug. 21, 2004), at <http://www.tas-cas.org/en/pdf/hoy.pdf> [hereinafter Hoy].

ure of the FIG to respect its own procedures in the face of a much-publicized controversy and the FEI's ambiguous rules governing both judging standards and internal appeals.⁷⁸

A. The Case of Yang Tae Young

To understand the CAS's criticism of the FIG, it is worth reviewing the events that transpired after the judges miscalculated the difficulty of Yang's routine. According to the FIG's rules, protests must be lodged on the competition floor before the next rotation begins, but the South Koreans did not enter their challenge until the next day.⁷⁹ The FIG ruled that the protest came too late to overturn the results.⁸⁰ The federation nevertheless immediately reviewed the competition tapes and suspended three judges for the remainder of the Athens Games—two from Spain and Colombia who determined the incorrect start value for Yang, and an American judge who over-

78. See KAUFMANN-KOHLER, *supra* note 28, at 95–99. For example, at the 1998 Nagano Games, the ad hoc Division heard an appeal from Canadian snowboarder and gold medallist Ross Rebagliati, who disputed his post-competition disqualification by the IOC after traces of marijuana were found in his system. The Division had to examine the IOC's Medical Code governing use of drugs at the Games (replaced by the Olympic Movement Anti-Doping Code in 2000). It found that, according to the Medical Code, the IOC could treat marijuana as a prohibited substance and require sanctions only if the IOC reached an agreement to that effect with the sports federation concerned. The IOC had never reached such an agreement with the international ski federation, thereby nullifying the IOC's testing provision and exonerating Rebagliati. Also in Nagano, Ulf Samuelsson, an American citizen and NHL player who joined the Swedish Olympic hockey team, was revealed to be an American, and thus ineligible to play for the Swedes, two days before the quarterfinal game. The ad hoc Division had to issue a speedy decision: the easy part was agreeing to disqualify Samuelsson. The more difficult question was whether to forfeit Sweden's victories up to that point. The hockey federation's rules called for a sanction of forfeiture, but the provision was intended for championship tournaments, not the Olympic Games, which are structured differently. The Division decided not to disqualify Sweden because of the perverse effect it would have on other teams who were not involved, such as Russia who would then have to play a much stronger team in the quarterfinals. The CAS decision was lauded by the sports community, even though it contravened the hockey federation's rules. *Id.*

79. See Abrahamson & Pucin, *supra* note 12.

80. Alan Abrahamson, *Hamm Asked to Give Up Gold*, L.A. TIMES, Aug. 28, 2004, at D1.

saw the judging panel.⁸¹ This move galvanized the South Korean delegation, which requested that the U.S. Olympic Committee (USOC) consider a shared gold medal along the lines of that awarded to the Canadian pairs skaters at the 2002 Salt Lake City Games after the bribery scandal came to light.⁸² The South Korean delegation also threatened to appeal the FIG's ruling to the CAS.⁸³

Throughout the proceedings, the IOC refused to enter the fray.⁸⁴ The FIG, however, responded to South Korea's persistence with a letter to the gold medallist American Paul Hamm.⁸⁵ Written by the FIG's President Bruno Grandi, the letter suggested that Hamm voluntarily relinquish his medal to Yang, since Yang was "the true winner of the all-around competition."⁸⁶ Grandi wrote that such a move "would be recognized as the ultimate demonstration of fair play by the whole world."⁸⁷ The USOC denounced Grandi's request as an attempt to deflect the FIG's own incompetence.⁸⁸

81. *Id.* See also Juliet Macur, *Hamm Ruling Stands, but Ire at Judges Rises*, N.Y. TIMES, Aug. 24, 2004, at A1.

82. See Abrahamson, *supra* note 80.

83. *Id.*

84. IOC President Jacques Rogge stated that because the FIG had already certified the results of the gymnastics competition, "For us that is final." Liz Robbins, *South Korean Gymnast Appeals to Top Sports Court*, N.Y. TIMES, Aug. 29, 2004, at D5.

85. Abrahamson, *supra* note 80.

86. The pertinent text of Bruno Grandi's letter read:

I wish to remind you that the FIG Executive Committee has admitted the error of judgment made on the Parallel Bars and suspended the three responsible judges, two from the A panel and the FIG Technical Committee member. Indeed, the start value of the Korean gymnast Yang Tae Young was given as 9.9 instead of 10. As a result, the true winner of the All-Around competition is Yang Tae Young. If, (according to your declarations to the press), you would return your medal to the Korean if the FIG requested it, then such an action would be recognized as the ultimate demonstration of fair play by the whole world. The FIG and the IOC would highly appreciate the magnitude of this gesture. At this moment in time, you are the only one who can make this decision.

Letter to Paul Hamm (Aug. 26, 2004), FIG website, at <http://www.fig-gymnastics.com/cache/html/9124-8151-10001.html>.

87. *Id.*

88. Bill Briggs & John Meyer, *USOC Rejects Plea to Forfeit Hamm's Gold*, DENV. POST, Aug. 29, 2004, at B-01.

South Korea lodged a complaint with the ad hoc Division on the second to last day of the Games, ten days after the disputed competition.⁸⁹ The Division scheduled a hearing for the next day, but both the FIG's and Hamm's lawyers asked for an extension so that they could better prepare and summon key witnesses.⁹⁰ The Division acquiesced, referring the matter to the full CAS.⁹¹ On September 27, 2004, the hearing was held in Lausanne, and on October 21, 2004, the CAS issued its decision dismissing South Korea's challenge.⁹²

In denying the appeal, the CAS looked to its own jurisprudence on field-of-play decisions.⁹³ It reiterated its well-developed rule, "[C]ourts may interfere only if an official's field-of-play decision is tainted by fraud or arbitrariness or corruption; otherwise although a Court may have jurisdiction it will abstain as a matter of policy from exercising it."⁹⁴ Since there was no evidence of judge coercion or malice, the CAS could do nothing about the judges' technical error, especially considering South Korea's late appeal.⁹⁵

The CAS did take the opportunity to point out some patent flaws in the FIG's rules and procedures, as well as the federation's mishandling of the dispute.⁹⁶ First, the CAS acknowledged that the FIG's complex judging hierarchy⁹⁷ allowed for an

89. *Yang*, CAS 2004/A/704 ¶ 1.1.

90. *Id.* ¶¶ 1.2-4.

91. *Id.* ¶ 1.5.

92. *Id.* ¶ 1.8.

93. *Id.* ¶ 3.2.

94. *Id.*

95. *Id.* ¶ 3.8.

96. *Id.*

97. The Judges' Panel in artistic gymnastics consists of two groups of judges for each round of competition, one responsible for evaluating composition and content (technical values) and the other for evaluating execution. The Panel also has a Chairman and an expert appointed by that event's monitoring Technical Committee. The Panel reports to the Superior Jury, which consists of a Technical President and two experts appointed by the Technical Committee, whose duty it is to supervise the competition, to review the marks of judges, to deal with any error in judgment on the part of the judges, and to respond with "such action as they consider necessary." The Jury of Appeal consists of two members of the FIG's Executive Committee appointed by the Presidential Commission, a Technical President, one member of the Technical Committee (but not involved in the decision of the Superior Jury or the judging at the apparatus in question) or an expert judge designated by the rele-

oversight jury to alter an “extremely incorrect score” in extraordinary circumstances; however, it was unwilling to apply this provision to the Yang case because of the rule’s lack of guidance on what procedures were necessary to effect such a change.⁹⁸ The CAS wrote:

There is no doubt that a mechanism exists for reversing judging errors, *although there did not appear to be universal familiarity with it even among those responsible for its operation*, in particular, there was an unresolved issue as to whether special forms had to be used for the purposes of protest.⁹⁹

Second, the CAS pointed out the confusion among the parties not only as to how, but also as to when precisely before the competition’s end a protest must be lodged.¹⁰⁰ It noted that the FIG’s previous version of the rules had clearly stated that written complaints had to be handed to the head of the oversight jury “at the latest fifteen minutes after the incident.”¹⁰¹ The CAS commented that the FIG was “not able to enlighten us as to why the [Technical Rules] had been changed—or even when—although U.S. advocates informed us that the amendments appear to date from 1989.”¹⁰² The CAS then remarked, “We were consoled to hear from FIG that, as a result of the focus which this dispute has placed on the limitation issue, the rules may be revised and thus attain their previous clarity.”¹⁰³

The CAS also addressed the federation’s behavior in the aftermath of the competition, especially that of President Grandi:

We would respectfully suggest that FIG . . . made three mistakes, albeit, we are certain in entire good faith. Firstly, they publicly accepted without qualification that there was an error in the judging of their own officials. True it is that there was an error in the start value identifiable when Yang’s performance was analysed with the aid of the Technical Video. How-

vant Technical Committee. Following the conclusion of each session, the Jury of Appeals deals with any protests lodged. It also ensures that the requirements of the statutes, technical regulations, rules and guidelines are observed. *Id.* ¶¶ 3.5–10.

98. *Id.* ¶¶ 3.10–14.

99. *Id.* (emphasis added).

100. *Id.* ¶ 3.10 (quoting the FIG’s 1982 technical rules).

101. *Id.*

102. *Id.* ¶ 3.11.

103. *Id.*

ever, an error identified only after a competition is complete is immaterial to the result of the competition under FIG's rules: only an error identified during it, and successfully appealed, can affect such a result. Secondly, they publicly said that, but for such error, Yang would have won the event. This, for reasons we have already discussed, is something in realm of speculation, not of certainty. Thirdly, they sought to persuade Hamm to surrender his gold medal to Yang when there was no reason for him to do so.¹⁰⁴

The CAS specifically addressed Grandi's suggestion to Hamm to relinquish the gold as the "ultimate demonstration" of fair play:¹⁰⁵

There was an instance drawn to our attention where in the World Trampoline Championship of 2001 an error in judging was made and the beneficiary of it, Ms. Ka Aaeva, gave her gold medal "in the spirit of friendship and fair play" to the runner up Ms. Dogonadze. She did so because there was, as was perceived, no way other than by an act of grace that the consequences of the error could be corrected. Hamm was invited to do the same by FIG. He declined to do so. He is, in our view, not to be criticized for this. He was not responsible for the judges' error; and, as we have already observed, he can be no more certain than we as to what the outcome would have been had the judges not made the mistake.¹⁰⁶

While the CAS stressed Hamm's blamelessness, his Olympic achievement had already been tainted by the prolonged high-profile controversy.¹⁰⁷ Because the Athens Games ended with Hamm's gold medal in dispute, he was denied endorsement contracts, talk show appearances and other benefits that usually befall gold medallists.¹⁰⁸ Hamm was also criticized in the media for not relinquishing the gold to Yang.¹⁰⁹

104. *Id.* ¶ 4.9.

105. See Alan Abrahamson, *Worldwide Anti-Doping Code is Given Approval*, L.A. TIMES, Mar. 6, 2003, at 9.

106. *Yang*, CAS 2004/A/704 ¶ 4.10.

107. See Jill Lieber, *Despite Scoring Controversy, Gymnast Hamm Feels Golden*, USA TODAY, Aug. 31, 2004, at 15C (quoting Hamm as stating that some of the media has been "very hurtful").

108. See Filip Bondy, *Hamm Keeps Gold But Loses Charm*, DAILY NEWS, Oct. 22, 2004, at 142. Hamm's agent, Sheryl Shade, had been under the impression that he would get a Wheaties endorsement until a last minute call from the company, just a day after the FIG sent Hamm the letter suggesting

B. The Case of Bettina Hoy

The equestrian Eventing competition consists of three phases: dressage, cross-country and two rounds of show jumping where competitors navigate a course, peppered with approximately fifteen obstacles up to five-feet high and six-feet wide, in a limited amount of time.¹¹⁰ Whichever combination of horse and rider earns the fewest penalties wins.¹¹¹ During the first round of show jumping at the Athens Games, German rider Bettina Hoy and her horse crossed the start line, thereby triggering both the official internal timing device and the stadium clock.¹¹² As Hoy approached the first jump, she turned her horse away and made a wide circle that brought her, once again, behind the start line.¹¹³ Hoy then proceeded to cross a second time, upon which a judge reset the stadium clock to zero.¹¹⁴ This led Hoy to believe that she had finished the course within the ninety-second time limit, while the internal timer clocked her performance at thirteen seconds exceeding the maximum.¹¹⁵ The FEI's Ground Jury, after much deliberation, applied thirteen time penalties to Hoy, knocking her out of the gold medal position and allowing France, Britain and the United States to medal.¹¹⁶

he relinquish the gold medal. According to Shade, Wheaties wanted no part of the controversy. *Id.*

109. See, e.g., Ian O'Connor, *Hamm Should Share Gold, not Wheaties Box*, USA TODAY, Aug. 21, 2004, at 3; Bondy, *supra* note 108 (suggesting that Hamm might have been more than a "disposable Olympic hero" had he reached out to Yang during the medal ceremony or campaigned for a shared gold medal).

110. For purposes of the Olympic competition in Eventing, all riders participate in dressage, cross-country and the first round of show jumping. Only the top twenty-five qualify for the individual competition and the second round of show jumping. Their scores in all four phases are used to determine their individual standings. *Hoy*, CAS OG 04/007 ¶ 3.1. It was during the first round of show jumping that Hoy crossed the start line twice. See *id.*

111. *Id.*

112. *Id.* ¶¶ 3.5, 7.1. The timing is crucial in show jumping because competitors must finish the course within ninety seconds. Riders must keep their eyes both on the course and on the clock to avoid being penalized one point per second. See *id.*

113. See *id.* ¶ 3.5.

114. *Id.*

115. *Id.* The internal computerized timing device, the official timer, clocked Hoy's performance at 103 seconds.

116. *Id.* ¶¶ 1.2, 3.6.

However, the Germans challenged the ruling to the FEI's Appeal Committee, which overruled the Ground Jury's decision on fairness grounds.¹¹⁷

France, Britain and the United States immediately appealed to the ad hoc Division, which issued a decision nullifying the Appeal Committee's ruling.¹¹⁸ The Appeal Committee had based its jurisdiction to review the Ground Jury's decision on the fact that the case "constituted an issue of interpretation of the FEI Rules" and was, therefore, appealable.¹¹⁹ The ad hoc Division overturned that holding, asserting that the Ground Jury's ruling was clearly a technical decision, i.e., whether or not to impose a time penalty, and that it was, therefore, final according to the FEI's rules.¹²⁰ The Division rebuked the Appeal Committee for providing a conclusory, erroneous opinion, unsubstantiated by any supporting evidence.¹²¹ The Division offered the following criticism:

117. *Id.* The Appeal Committee reasoned that the restarted stadium clock resulted "in a clear injustice to the rider concerned," who relied on the only clock that she could see. Frankie Sachs, *Success from the Jaws of Defeat*, JERUSALEM POST, Sept. 3, 2004, at 14.

118. *Hoy*, CAS OG 04/007 ¶ 6.1.

119. *Id.* ¶ 7.2. The Eventing competition is judged by a three-person Ground Jury. Among its responsibilities is to rule on all times and penalties in the show jumping events. The Ground Jury is "ultimately responsible for the jumping of the event and for settling all problems that may arise during its jurisdiction." *Id.* Any field-of-play decision by the Ground Jury is final, i.e., not reviewable by the Appeal Committee. *See id.*

120. *Id.* ¶¶ 8.2, 8.6.

121. The Appeal Committee's decision (written in the third-person) in its entirety:

The Appeal Committee started by considering whether they had jurisdiction to deal with the case presented. The Committee agreed that the case came under Art 163.6 as an interpretation of the rules and so agreed to proceed with the hearing.

The Appeal Committee considered the appeal of the German Federation against the time penalties awarded to Bettina Hoy during the Eventing Team Jumping and Individual Qualifier.

The Committee concluded that the countdown had been restarted resulting in a clear injustice to the rider concerned. The Committee therefore removed the time penalties.

Id. ¶ 3.6 (quoting the Appeal Committee decision).

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If it had been an interpretation or construction issue, one would have expected, at the very least, an explicit reference to the rule or rules giving rise to such issue [in the Committee's decision]. No such reference occurs and none can be inferred. The mere assumption by the Appeal Committee, in deliberating the appeal, that it concerned an interpretation of rules could not have the effect of creating such issue or of converting a factual issue into a legal one¹²²

The Division pointed to drafting problems within the FEI's rules that might have contributed to the Appeal Committee's error.¹²³ It questioned Article 163.6.1 of the FEI's General Regulations, which reads:

Art. 163. There . . . is no appeal against decisions of the Ground Jury in the following cases:

6.1. Where the question for decision was what in fact happened during a competition or where marks are awarded for performance; Examples (which are not exhaustive): whether an obstacle was knocked down, whether a horse was disobedient . . . what was the time taken for the round, or whether an obstacle was jumped within the time; whether, according to the Rules, the particular track followed by a competitor has caused him to incur a penalty. *Contrast questions involving interpretation of the Rules, which can be the subject of appeal.*¹²⁴

The Division wrote of this rule:

It is clear that the ruling of the Ground Jury in deciding to impose a time penalty on Ms. Hoy was of a purely factual nature falling within its exclusive jurisdiction. There is no merit in the suggestion by the FEI . . . that this ruling involved an interpretation of rules as apparently envisaged, with no particular lucidity, in the last sentence appended, it would seem, to Article 163.6.1.¹²⁵

122. *Id.* ¶ 8.3.

123. *Id.* ¶ 7.2.

124. *Id.* ¶ 7.2 (alteration in original).

125. Although it found no need to reach this alternate claim, the Division noted that the Appeal Committee's decision also violated due process because the affected parties had not been notified of the appeal hearing. *Id.* ¶¶ 4.2, 8.2, 8.5.

The Division also addressed the German delegation's opposition to the CAS's jurisdiction based on a provision in the FEI statute forbidding challenges to Appeal Committee decisions.¹²⁶ Even though the Division dismissed the frivolous claim, it still had to address the rule's plain language denying the CAS's well-established jurisdiction.¹²⁷ Valuable time was wasted on an issue that should not have been in contention.¹²⁸ The FEI's own representative at the arbitration hearing did not bring the same jurisdictional challenge; presumably, he knew the FEI rules denying the CAS jurisdiction were outdated and irrelevant.¹²⁹

IV. REWRITING THE RULES

There are two prevailing views on how courts of arbitration should treat the rules governing a sports body.¹³⁰ The first suggests construing the organization's rulebook sensibly, in accordance with the spirit of the activity to which it applies, rather than in an overly technical manner.¹³¹ This view is countered by the idea that such rules are quasi-statutory at this point in the development of sports and they need to be predictable and clear, especially in the disciplinary context where athletes de-

126. *Id.* ¶ 6.1. The Division wrote:

[The German team] submitted at the outset that the CAS ad hoc Division did not have jurisdiction to hear the present appeal by reason of the provisions of Article 170.2.2 of the FEI General Regulations. In accordance with this Article, appeals against decisions of the Appeal Committee on appeal from the Ground Jury were not appealable, regardless of whether the Appeal Committee had jurisdiction or not. There is no merit in this submission, which was not supported by [the FEI itself]. As mentioned before . . . Article 170.2.2 is in conflict with . . . a variety of other binding provisions relating to the jurisdiction of CAS.

Id. ¶¶ 2.5, 6.1.

127. *Id.*

128. The issue of the CAS's jurisdiction at the Olympic Games is well-settled. See KAUFMANN-KOHLER, *supra* note 28, at 24–25.

129. Leaving irrelevant, conflicting rules in the statutes of sports organizations leads to confusion and squandered effort. See *Hoy*, CAS OG 04/007 ¶¶ 2.5, 6.1.

130. BELOFF ET AL., *supra* note 36, § 2.40. See J. Paul McCutcheon, *Sports Discipline and the Rule of Law*, in LAW AND SPORT IN CONTEMPORARY SOCIETY 115, 116 (Steve Greenfield & Guy Osborn eds., 2000).

131. BELOFF ET AL., *supra* note 36, § 2.40.

serve fair notice of offenses and sanctions.¹³² The CAS, like most tribunals, favors the former view, striving for purposive construction, i.e., to “discern the intention of the rule-makers, and not to frustrate it.”¹³³ However, this reasoned approach often falls apart: it is impossible to discern a drafter’s intent where the plain language contradicts itself and where additions and amendments have been made without an eye to the document as a whole.¹³⁴

In the instant case, the rules detailing the appellate procedures of the FIG and the FEI did not provide adequate guidance to those obliged to follow, implement and interpret them.¹³⁵ The ambiguity caused the CAS—in an attempt at purposive construction—to vet the federations’ rulebooks.¹³⁶ This works against the quick and efficient resolution that the IOC envisioned when it authorized the CAS to arbitrate the Olympic Games.¹³⁷ To remedy the situation, the IOC could develop a model internal appeals system that each federation must adopt in order to maintain its IOC-recognized status. Instead of the various configurations of Ground Juries and Appeal Committees with convoluted jurisdictional and procedural rules, the

132. See McCutcheon, *supra* note 130, at 121. McCutcheon argues that especially in the context of disciplinary rules, “offenses should be defined in advance and with sufficient clarity so as to put athletes on notice” of the prohibited conduct and sanctions. Broad, open-ended offenses such as “bringing the game into disrepute” or “misconduct” that are contained in many sports codes do not give reasonable notice of what is proscribed, and they are liable to place too much discretion in the hands of the decision-maker. *Id.*

133. BELOFF ET AL., *supra* note 36, §§ 2.40, 1.18 (the CAS’s decisions have reflected and promoted “the distinctive sporting principles of fair play and good sportsmanship in applying technical rules; the equality of athletes before the law; the construction of sporting rules so as not to distort their purpose; a respect for sporting decisions; and a flexible and pragmatic approach to entry deadlines.”).

134. See *id.* § 2.38 (noting the CAS’s recent criticism of “drafting that engenders controversy”).

135. See *id.* § 2.38 n.26 (citing previous CAS decisions that criticized federation rules).

136. See *supra* Part III.

137. The IOC’s vision for the ad hoc Division was that it would be “simple, flexible and free of charge.” See Reeb, *supra* note 15, Decentralised CAS Offices and the Ad Hoc Divisions para. 2. The CAS’s duty is to “ensure that the appropriate regulations have been observed and that the principles of due process and natural justice have been followed pursuant to the rules established for CAS.” *Id.*

IOC could establish a simple hierarchy, a single set of rules governing when and how a protest can be lodged, and a clear policy on how to deal fairly with challenges. The basic rules would be known to all and used by all participating in the Olympic Games.¹³⁸ Any CAS solution to problems that might arise would be disseminated for the benefit and strengthening of all similarly affected.¹³⁹ The federations would be able to tailor the model to their own particular needs and would retain independence in judgment-making, but a common structure would imbue the regime with an objectivity that it currently lacks.

A. *The WADA Precedent*

The IOC's successful implementation of an anti-doping regime throughout the Olympic Movement supplies strong evidence that it could introduce a similar initiative aimed at overhauling the federations' appeals systems. Its development of the Anti-Doping Code in 2000 led to the creation of the independent World Anti-Doping Agency (WADA) in 2003.¹⁴⁰ Not only has WADA set international standards for drug testing, it has also promulgated a set of model rules adopted by world sports organizations, including the federations, that cover testing, sanctions and appeals.¹⁴¹ WADA was a solution born of

138. See BELOFF ET AL., *supra* note 36, §§ 8.122–.124. Beloff suggests an even broader solution, i.e., that every nation adopt a unitary dispute resolution forum that would have final redress before the CAS. He criticizes sports bodies that continue to internally resolve their own disputes and sees the CAS's experience and pedigree as making it the best model for replication. *Id.*

139. Furthermore, having each federation follow a common model might help federation leaders adhere to the rules in the face of public pressures or, alternatively, give the IOC a reason to monitor the federations' leadership to make sure they remain uninfluenced by politics, media pressure and other considerations.

140. See About WADA, WADA website, at <http://www.wada-ama.org> (last visited Apr. 14, 2005). The Olympic Anti-Doping Code codified the disparate rules and procedures of the federations, CAS awards, and judicial decisions from various domestic courts. See NAFZIGER, *supra* note 8, at 161.

141. WADA: Model of Best Practice for International Federations, Draft version 2.0 (July 23, 2003), at http://www.wada-ama.org/rtecontent/document/if_model_rules_v2.pdf. As it did with the CAS, the IOC encouraged and developed the creation of WADA, but stepped away from it in order to preserve its legitimacy and, presumably, to encourage sports organizations to adopt the

necessity.¹⁴² In the late 1980s and throughout the 1990s, incidents of athlete doping continued to rise.¹⁴³ The IOC's attempts to create a comprehensive anti-doping policy were continually thwarted.¹⁴⁴ It already had jurisdiction over the problem through the Olympic Charter,¹⁴⁵ but it could not find a means of effective implementation.¹⁴⁶ Getting the sports bodies to agree on an official list of prohibited substances; developing acceptable, well-documented laboratory testing procedures; and securing the participation of all world sports organizations proved problematic.¹⁴⁷ Drug testing remained notoriously haphazard.¹⁴⁸ There was even evidence of state-administered doping

Model Rules. WADA is now an independent organization, funded in equal parts by the Olympic Movement and various national governments. *See id.*

142. *See* NAFZIGER, *supra* note 8, at 152–53. At the 1983 Pan American Games, twelve athletes were disqualified for failing drug tests. At the 1984 Los Angeles Games, eleven athletes were expelled from competition. At the 1987 Pan American Games, six athletes were disqualified. *Id.*

143. *Id.*

144. *Id.*

145. OLYMPIC CHARTER R. 2(8) (stating the IOC's mission to lead the fight against doping in sports), R. 45 (eligibility code requiring participants to respect and comply with the World Anti-Doping Code), R. 48 (providing for a Medical Commission to implement it). *Id.* There are also IOC-accredited labs which conduct drug testing. NAFZIGER, *supra* note 8, at 148.

146. NAFZIGER, *supra* note 8, at 151–55. The IOC first instituted anti-doping rules in 1967, and it required each competition site to have testing facilities and each competitor to submit to testing in the 1970s. Then in 1987 the IOC's Medical Commission recommended to the international federations a two-tiered sanction plan in an effort to encourage uniform standards, and a comprehensive International Olympic Charter Against Doping in Sport. However, this accord overlapped, contradicted and conflicted with multiple other accords inspired at the same time, such as the U.S.-Soviet Mutual Doping Control Agreement, a multilateral agreement based on the U.S.-Soviet pact and supervised by the IOC's Medical Commission, the Council of Europe's Anti-Doping Convention, and a trilateral agreement between Australia, Canada and the United Kingdom. *Id.*

147. *Id.* at 149–55.

148. *Id.* at 152. For example, the Athletic Congress of the USA (TAC) refused to conduct extensive drug tests at its track-and-field trials leading up to the 1983 Pan American Games, despite heavy lobbying by the chair of TAC women's track-and-field committee, who felt that TAC's reluctance to test for illegal drugs was an implicit condonation. *Id.*

and passivity among sports administrators entrusted with the task of policing athletes.¹⁴⁹

WADA was the compromise necessary to get the disparate organizations on board. The IOC-recognized federations, as well as those sports bodies who do not participate in the Olympic Games, have all signed on to WADA.¹⁵⁰ It is flexible enough to preserve each federation's decision-making autonomy, while providing a comprehensive common framework.¹⁵¹ WADA offers training assistance in implementing the model rules and tailoring them to the needs of each organization.¹⁵² Signatories (called "stakeholders") may modify the rules or develop their own, subject to review and approval by WADA.¹⁵³ All of these attributes can be carried over to a similar system targeting internal appeals.

B. Incentives for the Federations

If the IOC could propose a model framework with both the flexibility and structure of WADA, the federations might embrace the idea as a more attractive option than being berated by CAS decisions and media criticisms after high-profile disputes. They struggle every time their internal flaws are caught in the

149. *Id.* During the Cold War, massive sports programs, particularly in China, Eastern Europe and the Soviet Union, used doping as a performance enhancer in international competitions. *Id.*

150. Abrahamson, *supra* note 105. WADA has been approved by sixty-five sports federations and seventy-three national governments. *Id.* As with the arbitration clause, the IOC required all sports bodies participating in the Olympic Games to adopt WADA into their by-laws by the start of the 2004 Athens Games. Code Acceptance, WADA website, at www.wada-ama.org (last visited Apr. 14, 2005).

151. The federations have not relinquished their autonomy or control in the WADA regime. For example, they grant Therapeutic Use Exceptions (TUE's) to athletes who need to take prescribed medications that contain prohibited substances. While the IOC can review the TUE's to see if they are in compliance with the relevant rules and then inform the federations and WADA of its advisory opinion, it cannot overrule the federation's decision. Furthermore, if a federation sanctions an athlete for doping as a result of a federation-ordered test, the IOC must respect the decision as long as the procedures used were in accordance with WADA standards. See WADA Independent Observers Report, Olympic Summer Games Athens 2004, at 63, 80, at <http://www.wada-ama.org/rtecontent/document/AthensIOReport.pdf> (last visited Apr. 14, 2005).

152. NAFZIGER, *supra* note 8, at 162.

153. *Id.*

spotlight. After the Salt Lake City scandal, the International Skating Union scrambled to implement an improved judging system.¹⁵⁴ Shortly before the Yang hearing at the CAS, the FIG met in Turkey to revise its rules and structure.¹⁵⁵ Instituting a model appellate system might be a welcome alternative to such piecemeal and reactionary reform, especially since it would likely be developed through the money, expertise and support of both the IOC and the federations, as was the case with WADA.¹⁵⁶

Furthermore, each time the CAS is forced to make basic sense out of a federation's conflicting, inarticulate rules, it detracts from the CAS's true role of deciding whether those rules were fairly applied.¹⁵⁷ The CAS has been criticizing the federations on this point for most of its short existence.¹⁵⁸ Those directly rebuked have scrambled to improve, but others have let comparable flaws persist. This lack of proactive response to CAS decisions undermines the CAS as an authoritative body when, ironically, the federations have largely embraced it.¹⁵⁹ Not only do they encounter the ad hoc Division during the Olympic Games, but many federations have voluntarily submitted to the CAS's compulsory jurisdiction in all their business dealings.¹⁶⁰ It is in the federations' own interest to further legitimize the CAS.¹⁶¹

154. See Roberts, *supra* note 7 (describing the Salt Lake City bribery incident and subsequent changes to the skating federation's scoring system).

155. Thomson, *supra* note 12.

156. The WADA rules were developed through the collective efforts of the IOC, the federations, the NOC's and other world sports organizations. Funding, WADA website, at <http://www.wada-ama.org> (last visited Apr. 14, 2005).

157. See *supra* Part III.

158. See *supra* note 135.

159. See Nafziger, *supra* note 19, at 166.

160. *Id.*

161. *But see* the reprinted speech of Paul H. Haagen, Professor of Sports Law at Duke University, "Have the Wheels Already Been Invented? The Court of Arbitration for Sport as a Model of Dispute Resolution," at <http://www.law.duke.edu/sportscenter/haagen.pdf> (last visited Apr. 14, 2005). Professor Haagen expresses mixed feelings about the effectiveness of the CAS as the leading governing body of the sports world. He does not feel the CAS has shown its complete independence from the IOC, federations and NOC's. Furthermore, the CAS, like other arbitral bodies, is not tied to precedent. In his estimation, the CAS has all the "advantages that come with greater informality and all of the disadvantages of them as well." *Id.* at 7.

Those opposed to a model appeals system might cite issues of autonomy and argue that world sports bodies, especially the federations, have flourished under the current regime.¹⁶² The federations have endured for decades with unique structures by building alliances and developing distinct cultures.¹⁶³ They have become powerful international institutions and serve as an important counterweight to the IOC.¹⁶⁴ Having the IOC dictate yet another far-reaching policy that impacts the federations' internal structures might damage the balance of power.¹⁶⁵ However, such "autonomy" can also be seen as a quagmire of rules, procedures, policies and politics, a most inadequate, confused system for an increasingly sophisticated sports world.¹⁶⁶ Having uniform appellate structures would not encroach on the federations' inherent discretion and would leave intact their oversight experts and technical criteria. There would be even less cause for alarm if the model rules were infused with the same flexibility as the WADA rules, allowing for reasonable modification to accommodate specific needs.¹⁶⁷

162. On the other hand, some would argue that improved internal appeals are not enough:

[B]rilliant athletes at the peak of their career can be destroyed by the absence of coherent and independent dispute resolution procedures which guarantee natural rights and fair process. Such a body must command respect, trust and confidence of participants, governing bodies and the public alike. It must be truly independent, not merely providing better conducted disciplinary committees and appeal panels within the respective National Associations and International Federations.

Otton, *supra* note 69, ¶ 17.

163. See *supra* Part II.B, describing the federations' duties and powers.

164. *Id.*

165. An argument could be made, however, that the federations' autonomy has always been limited by their contractual obligations to the IOC, and that the IOC has jurisdiction over the federations' internal appeals systems to the extent that the latter are integral to CAS arbitration. See OLYMPIC CHARTER R. 74.

166. See BELOFF ET AL., *supra* note 36, §§ 2.38, 8.121.

167. See About WADA, WADA website, at <http://www.wada-ama.org> (last visited Apr. 14, 2005); BELOFF ET AL., *supra* note 36, §§ 1.18, 8.121 (arguing for a body of sports law, a unitary code of rules applicable to the resolution of sports disputes both domestic and international, spearheaded by CAS decisions); Otton, *supra* note 69, ¶ 47 ("I believe that the CAS process is the template for all competitive sports. If their procedures were adopted worldwide then there would be more harmonisation of the procedural rules of national

V. LEX SPORTIVA

This proposed solution, the WADA model, the CAS's opinions, and even the creation of the CAS itself, all reflect a new phase in the development of sports, one that requires a cohesive body of sports law.¹⁶⁸ As competitions have become more sophisticated and commercialized, the customary ad hoc rules governing sports have transitioned into more formal, less flexible legalistic regimes.¹⁶⁹ Fifty years ago, sports were largely played by gentlemen and amateurs according to the Corinthian ethic ("It's not whether you win or lose . . .").¹⁷⁰ Referee and umpire decisions were final and inviolate; disciplinary standards were casual.¹⁷¹ In contrast, today's sports participants are willing to seek courts and arbitrators to resolve their disputes.¹⁷² Elite sports have become more of a business than a competitive recreational activity.¹⁷³ The financial stakes involved are so great that the conventions of the marketplace govern, rather than those of the clubhouse.¹⁷⁴

and international sports governing bodies and the legitimate interest of the sport, of sportsmen and sportswomen and the public would be satisfied.").

168. See McCutcheon, *supra* note 130, at 116. McCutcheon describes himself as a traditionalist who espouses a non-interventionist approach, so he sees the legalizing of sports to be regrettable; however, he recognizes that it is the inevitable result of sports' development. *Id.*

169. *Id.* McCutcheon writes:

[S]port by its nature is a rule-based activity that readily facilitates a disciplinary function. A myriad of rules—playing rules, eligibility rules, competition rules and the like—governs the regular conduct of sport and, in consequence, it is necessary to establish an apparatus to ensure the interpretation and enforcement of those rules. An inevitable result of the organization and codification of sports rules is the corresponding development of an adjudicative and interpretive function, thus, in effect, sports have developed their own internal "legal systems."

Id.

170. Otton, *supra* note 69, ¶ 1.

171. *Id.*

172. See McCutcheon, *supra* note 130, at 116. Perhaps an even more compelling change in society than its move toward litigiousness, is its expectation that sports should reflect the higher virtues of honesty and moral integrity. *Id.* at 118. "This demand is uniquely strong in the case of sport and is not made in respect of many other aspects of human activity." *Id.*

173. *Id.* at 116–17.

174. *Id.* at 117. See Bitting, *supra* note 9, at 664.

Those skeptical of the idea of recognizing an independent body of sports law might argue that it amounts to a series of cases arising in tort, contract law, administrative law, health law, etc., that happen to involve sports.¹⁷⁵ While this is undoubtedly true, the reality is that national and international laws are beginning to treat sports activity, sports organizations, and the resolution of sports disputes, differently from other areas of law.¹⁷⁶ Discrete sports doctrines are taking shape, as evidenced by the deference of many domestic courts toward decision-making bodies like the CAS.¹⁷⁷ Sports have assumed great political significance.¹⁷⁸ Many countries have sports ministries, and governmental involvement in sport at a variety of levels is normal.¹⁷⁹ Sports law is developing from a powerful mixture of commercial interests, international competition and public demand; growing, not from any treaty entered into by sovereign states, but from international agreements among independent

175. See BELOFF ET AL., *supra* note 36, § 1.6. According to Beloff, the debate is between traditionally minded, purist lawyers who distrust activity-led “vertical” fields of law, preferring the surer, traditional ground of rule-led “horizontal” law. *Id.*

176. See *id.* § 1.7.

177. *Id.* Many domestic courts have firmly established a region of autonomy for decision-making sports bodies, within which the courts decline to intervene without a compelling reason. *Id.*

178. *Id.* § 1.4. Beloff writes:

In South Africa the effort to end apartheid was driven forward, with considerable success, by the sporting boycott. Rights of full citizenship for all aroused high passions in South Africa, but so did rugby, cricket, athletics and soccer, for access to which white South Africans were prepared to pay a high political price. When Georgia became an independent state after the dissolution of the Soviet Union, one of the first acts of its inaugural government was to apply to join FIFA, the world governing body of association football. To the Georgian people, this was probably just as much a badge of sovereign independence as formal recognition by other states, membership in the UN, or other conventional indicia of statehood.

Id.

179. McCutcheon, *supra* note 130, at 117. It has become the norm for governments to enthusiastically endorse bids to host the Olympic Games and other premiere sporting events. *Id.* See also BELOFF ET AL., *supra* note 36, § 1.10 n.8 (noting Malaysia as an example of a country where sports are heavily governed by statute).

bodies, in particular the Olympic Charter and the various organizations that form the Olympic Movement.¹⁸⁰

This developing body of sports law has been variously defined as a “dynamic, although still incomplete process to avoid, manage and resolve disputes among athletes, national sports bodies, international sports organizations and governments,”¹⁸¹ as well as a “loose but increasingly cohesive body of rules . . . an unusual form of international constitutional principle prescribing the limited autonomy of non-governmental decision making bodies in sport.”¹⁸² The decisions of the CAS are seen as substantively guiding the movement:¹⁸³

Arbitral awards are normally binding only in the cases and on the parties to which they are addressed. Unlike judicial decisions in common law systems, arbitral awards therefore have no currency as *stare decisis* In practice, however, the awards and opinions of the CAS provide guidance in later cases, strongly influence later awards, and often function as precedent. Also, by reinforcing and helping elaborate established rules and principles of international sports law, the accretion of CAS awards and opinions is gradually forming a

180. BELOFF ET AL., *supra* note 36, § 1.10.

181. Polvino, *supra* note 16, at 364.

182. BELOFF ET AL., *supra* note 36, § 1.12.

183. See NAFZIGER, *supra* note 8, at 48. Furthermore, the Olympic Movement lies at the heart of the legal processes driving the development of international sports law. The movement is unique because it is non-governmental and well-organized, although “at present, the Olympic Charter falls well short of being a transnational constitution for sport. No one institution has a monopoly of jurisdiction over sport internationally.” *Id.* However, there are some normative trends in the hierarchy of world sports:

[N]ational sports bodies resolve disputes within their sports and within their borders; international federations review decisions of national bodies within a particular sport; National Olympic Committees operate across different sports and intervene in disputes at a national level; the organs of the International Olympic Committee or an international federation may review a decision of a National Olympic Committee; independent arbitration panels may deal with ad hoc disputes; and finally the courts of various countries may become involved, and in particular normally recognize and enforce foreign arbitration awards or court judgments to the extent that their national law so provides, in accordance with international agreements and principles of comity, reciprocity and judicial cooperation.

BELOFF ET AL., *supra* note 36, §§ 8.91–92.

source of that body of law. This source has been called the *lex sportiva*.¹⁸⁴

CAS opinions have introduced some general legal principles into the arena of sports law, such as deference to field-of-play decisions; purposive interpretation of rules and regulations; protection of athletes' rights to due process, including the right to a fair hearing and notice; and the contractual norms of good faith,¹⁸⁵ benefit of the doubt¹⁸⁶ and legitimate expectations.¹⁸⁷

The CAS has also focused on harmonizing the procedural and substantive rules used by national and international sports governing bodies.¹⁸⁸ This is a lofty goal, and it is unlikely that there will ever be complete uniformity. Nevertheless, as leaders of the sports law movement, the IOC, the CAS and the international federations have a duty to eliminate as many variables as possible.¹⁸⁹ Bolstering the IOC's arbitration scheme

184. NAFZIGER, *supra* note 8, at 48. *But see* Haagen, *supra* note 161, at 7.

185. BELOFF ET AL., *supra* note 36, §§ 7.116–127. Beloff illustrates the legal principle of good faith with the case of a water-polo player who tested positive for salbutamol, a substance allowed by FINA, the international federation governing water sports, as long as it is disclosed prior to a doping test. The player had not disclosed the salbutamol; however, he was able to demonstrate that on his national federation's list of banned and permitted substances, the substance was listed as permitted, without any other indication or conditions. The CAS annulled the sanction, asserting that an athlete should be able to trust information given to him by his national federation. *Id.*

186. *Id.* § 7.122. In a horse-doping case where jars containing urine samples were not sealed in accordance with the FEI's regulations, it was impossible to formally exclude any possibility of manipulation or contamination of the jars. Therefore, the CAS considered this an element of doubt which had to benefit the athlete. *Id.*

187. *Id.* § 7.124. Where a sporting organization chooses to temporarily depart from its established rules in certain circumstances, athletes unaware of the change cannot be bound by such arbitrary moves. *Id.*

188. *See* Otton, *supra* note 69, ¶ 43 (“Its principal aim was and is to secure the settlement of sports related disputes with a longer term objective of harmonising the procedural rules of national and international sports governing bodies.”). *See also* NAFZIGER, *supra* note 8, at 51 (“It is true that one of the interests of [CAS] is to develop a jurisprudence that can be used as a reference by all the actors of world sport, thereby encouraging the harmonization of the judicial rules and principles applied within the sports world.”).

189. *See* Nafziger, *supra* note 19, at 179 (“Ongoing efforts to simplify and better coordinate the unwieldy structure for resolving disputes, in particular, and to improve the accountability of the pertinent institutions, will benefit athletes, sports organizations and the public alike.”).

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with a more precise and predictable federation-wide appellate system is an important step toward that harmonization.¹⁹⁰

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190. *See id.* at 162.

* B.A. Columbia University 2002; J.D. Brooklyn Law School (expected 2006). All errors and omissions are my own. Thanks to Professor Dana Brakman Reiser who got me thinking outside the box, and to everyone at the Journal whose help and kindness made this a wonderful year, especially Erin McMurray and Adrienne Oppenheim. This note is dedicated to my mother, Rosalie Savarese, who was always at hand with wee-hour coffee and welcome distractions.

RICE AND CHEESE, ANYONE? THE FIGHT OVER TRIPS GEOGRAPHICAL INDICATIONS CONTINUES

I. INTRODUCTION

A legal concept that did not receive much attention,¹ geographical indication (GI) protection within the context of the World Trade Organization's (WTO) Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS or the TRIPS Agreement) grasped media attention during the months leading up to the WTO's Fifth Ministerial Conference² which began in Cancun, Mexico in September 2003.³ The reason: the European Union (EU) intended to seek at the Cancun meeting extension of the higher protection currently afforded only to wines and spirits under Article 23 of TRIPS⁴ to other agricultural products,⁵ among them cheeses such as Roquefort, Gor-

1. See Norma Dawson, *Locating Geographical Indications – Perspectives from English Law*, 90 TRADEMARK REP. 590, 590 (2000) (describing a "lack of general interest" in the issue within the legal profession).

2. For examples of media attention to the fight over GIs between the United States and the EU, see James Cox, *What's in a Name?* USA TODAY, Sept. 9, 2003, at 1B; Edward Fennell, *Champagne War*, TIMES (London), Sept. 2, 2003, at 9; Thomas Fuller, *California Chablis? No Such Thing*, Europeans Say, N.Y. TIMES, July 26, 2003, at C3; Scott Miller, *Europe Says "That Cheese Is No Cheddar!"* WALL S.J., Feb. 13, 2003, at B1; Amity Shlaes, *An Unpalatable Attitude towards Food*, FIN. TIMES (London), Oct. 22, 2002, at 19.

3. See WTO, *The Fifth Ministerial Conference*, at http://www.wto.org/english/thewto_e/minist_e/min03_e/min03_e.htm (last visited Apr. 12, 2005).

4. See Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, LEGAL INSTRUMENTS – RESULTS OF THE URUGUAY ROUND, art. 23, 33 I.L.M. 81 (1994), available at http://www.wto.org/english/docs_e/legal_e/legal_e.htm#TRIPs (last visited Apr. 11, 2005) [hereinafter TRIPS]. Part II, Section 3 of TRIPS refers to Geographical Indications.

5. See WTO Council for TRIPS, Communications from Bulgaria, Cuba, Cyprus, the Czech Republic, the European Communities and their Member States, Georgia, Hungary, Iceland, India, Kenya, Liechtenstein, Malta, Mauritius, Pakistan, Romania, the Slovakia Republic, Slovenia, Sri Lanka, Switzerland, Thailand and Turkey, *The Extension of the Additional Protection for Geographical Indications to Products Other than Wines and Spirits*, IP/C/W/353 (June 24, 2002), available at http://docsonline.wto.org/gen_search.asp?searchmode=simple [hereinafter Proposal for Extension]. Although proponents of the extension included developing countries such as

gonzola, Parmigiano Reggiano and Feta, and meats like Mortadella Bologna and Prosciutto di Parma.⁶ Simply put, the Europeans believe that these names “belong to small producers in specific regions of Europe, where those delicacies originated and are still made to traditional specifications,”⁷ and they would like those names returned.⁸

The issue remained on the table after the collapse of the Cancun Conference.⁹ Compared to negotiations over geographical indications that led to the TRIPS Agreement, however, the current debate has a new dimension. A few developing countries, led by India, have raised the issue in the context of the North-South divide,¹⁰ which during the original TRIPS negotiations concerned other intellectual property right provisions but not geographical indications.¹¹ In seeking heightened protection for their agricultural products such as basmati rice, jasmine rice

India, Western media coverage appeared to have mostly focused on the conflicts between the EU and the United States.

6. See Cox, *supra* note 2 (listing forty-one food items for which the EU intended to seek additional protection under TRIPS).

7. *Id.*

8. See *id.*

9. The EU and eleven other member states made a recent effort pushing the extension of Article 23. See WTO General Council Trade Negotiations Committee, Doha Work Programme – The Extension of the Additional Protection for Geographical Indications to Products Other than Wines and Spirits, *Communication from Bulgaria, the European Communities, Guinea, India, Kenya, Liechtenstein, Madagascar, Moldova, Romania, Switzerland, Thailand and Turkey*, WT/GC/W/540/Rev.1 (Dec. 10, 2004), available at http://docsonline.wto.org/gen_search.asp?searchmode=simple [hereinafter Extension Work Program]. See also *India Joins 10-nation Bloc for GI-Extension*, FIN. EXPRESS, Jan. 5, 2005, available at 2005 WLNR 140493 [hereinafter *India Joins Bloc*] (reporting on India's position and efforts on the extension of Article 23).

10. In the WTO context, North-South refers to debates or disputes between developed and developing countries, while North-North refers to debates or disputes between developed countries. See Doris Estelle Long, “*Democratizing*” *Globalization: Practicing the Policies of Cultural Inclusion*, 10 CARDOZO J. INT'L & COMP. L. 217, 223 n.16 (2002).

11. See Albrecht Conrad, *The Protection of Geographical Indications in the TRIPS Agreement*, 86 TRADEMARK REP. 11, 31 (1996) (“In contrast to the other topics of the Intellectual Property package, this battle was not the typical lineup between the first and the third world, but between the United States and the EC.”).

and Darjeeling tea,¹² these developing countries hope to also utilize TRIPS to protect their rich biodiversity resources from exploitation by developed countries.¹³

Under the TRIPS Agreement, WTO members agree to protect geographical indications, indications that identify the geographical origin of a good where “a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.”¹⁴ TRIPS generally prohibits the use of geographical indications which mislead the public,¹⁵ but affords protection of indications for wines and spirits even where the public is not misled.¹⁶ The EU and some twenty other countries now demand this higher level of protection for all products, not just wines and spirits.¹⁷

The main targets of the push for enhanced protection of geographical indications include the United States, Canada, Australia and Argentina—the so-called “new world countries.”¹⁸ Concerned that the EU position would “create gridlock and confusion in U.S. supermarket aisles and force American companies to spend hundreds of millions repackaging and rebranding their products,”¹⁹ the United States has led a campaign to oppose the EU efforts as protectionist and creating trade barriers.²⁰

12. See G Ganapathy Subramaniam, *Slim Chances of Special Status for Basmati*, *ECON. TIMES* (India), Sept. 14, 2003.

13. See Muria Kruger, Note, *Harmonizing TRIPs and the CBD: A Proposal from India*, 10 *MINN. J. GLOBAL TRADE* 169, 176–77 (2001) (stating that India proposes extension of TRIPS GI protection as a way to protect its unique biological resources from exploitation by developed countries).

14. TRIPS, *supra* note 4, art. 22.1.

15. *Id.* art. 22.2.

16. *Id.* art. 23.

17. See Proposal for Extension, *supra* note 5.

18. See Fuller, *supra* note 2.

19. Cox, *supra* note 2.

20. See WTO Council for TRIPS, Implications of Article 23 Extension, *Communication From Argentina, Australia, Canada, Chile, the Dominican Republic, El Salvador, Guatemala, New Zealand, Paraguay, the Philippines, Chinese Taipei and the United States*, IP/C/W/386 (Nov. 8, 2002), available at http://docsonline.wto.org/gen_search.asp?searchmode=simple [hereinafter Implications of Extension]. See also Seven WTO Nations Oppose Added Protection for Geographical Indications for New Items, 19 *Int'l Trade Rep.* (BNA) No. 32, at 1386 (Aug. 8, 2002).

The WTO dispute panel's recent reports on two linked disputes involving the EU regime of protecting geographical indications marked the latest major development in this area.²¹ In two separate but similar cases, the United States and Australia had challenged the EU geographical indications system for failing to protect non-EU geographical indications, such as "Florida" for oranges and "Idaho" for potatoes.²² The two members charged that the EU system was discriminatory against non-EU countries²³ because it required third countries outside the EU to have a system that is equivalent and reciprocal to the EU system in order to apply for protection for its geographical indications.²⁴ The dispute panel ruled that the EU system's "equivalence and reciprocity conditions" violated the TRIPS national treatment provision with respect to the availability of protection for geographical indications in the EU, and in so far as the EU system required extensive government involvement in the application and objection procedures.²⁵ But the EU interprets the ruling as having otherwise validated the EU system,²⁶ and all three parties declared victory. The impact of the WTO panel rulings remains to be seen; however, before their public

21. See Panel Report, European Communities – Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs, Complaint by the United States, WT/DS174/R (Mar. 15, 2005), available at http://www.wto.org/english/news_e/news05_e/panelreport_174_290_e.htm [hereinafter Panel Report]; Panel Report, Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs, Complaint by Australia, WT/DS290/R (Mar. 15, 2005), available at *id.*

22. For the U.S. case, see Press Release, Office of the United States Trade Representative, United States Wins "Food Name" Case in WTO against EU (Mar. 15, 2005), http://www.ustr.gov/Document_Library/Press_Releases/2005/March/United_States_Wins_Food_Name_Case_in_WTO_Against_EU.html [hereinafter USTR Press Release]. For the Australian case, see Press Release, Minister for Trade of Australia, Vaile Welcomes Win in Geographical Indications Dispute (Mar. 16, 2005), http://www.trademinister.gov.au/releases/2005/mvt019_05.html [hereinafter Australian Press Release].

23. See USTR Press Release, *supra* note 22; Australian Press Release, *supra* note 22.

24. See USTR Press Release, *supra* note 22.

25. See Panel Report, *supra* note 21, § 8.1B.

26. See Press Release, European Commission, WTO Panel upholds EU system of protection of "Geographical Indications" (Mar. 15, 2005), <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/05/298&format=HTML&aged=0&language=EN&guiLanguage=en>.

release on March 15, 2005,²⁷ the rulings were already widely considered a setback for the EU in its pursuit of higher protection of geographical indications for all foodstuffs.²⁸

This Note argues that extending the protection of geographical indications beyond the current level would be an implausible distraction from implementing the geographical indications provisions of TRIPS; the proposed potential benefits would unlikely justify the EU's protectionist approach or satisfy developing countries' unique needs for protection from exploitation by developed countries. Part II reviews the historical context of multilateral protection for geographical indications prior to TRIPS. Part III examines the TRIPS provisions regarding geographical indications and recent developments that may implicate the negotiations. Part IV analyzes the issue of Article 23 extension both as a North-North battle between the EU and the United States and their respective legal systems, and in the context of a North-South debate between developed and developing countries, and the plausibility of enhanced protection in addressing unique situations facing developing countries such as India. In conclusion, Part V proposes that, as a trade forum, the current TRIPS provisions should be maintained as the minimum standard for the protection of geographical indications to achieve a reasonable compromise of diverging interests among WTO members.

II. INTERNATIONAL PROTECTION OF GEOGRAPHICAL INDICATIONS BEFORE TRIPS

Geographical indications were the prevailing type of designation for products in antiquity.²⁹ Some countries, especially France, began very early to protect geographic names or indications of origin associated with a certain product or a certain quality standard of a product.³⁰ To these countries, protecting

27. The WTO initially issued confidential rulings to the parties in November 2004. The rulings were then made public on March 15, 2005. See *U.S. Claims Victory in WTO Geographic Indications Case*, FOOD & DRINK WEEKLY, Dec. 27, 2004, at 1.

28. See Edward Alden et al., *WTO Rules Against Europe on Food Names*, FIN. TIMES (London), Nov. 19, 2004, at 7.

29. Conrad, *supra* note 11, at 11.

30. *Id.*

geographical indications can be as much about economics as it is about national culture and politics.³¹

Three international multilateral agreements addressed the protection of geographical indications prior to the TRIPS Agreement of 1994.³² The Paris Convention for the Protection of Industrial Property of 1883 (Paris Convention)³³ prohibits false indications through border measures.³⁴ The Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods of 1891 (Madrid Agreement)³⁵ mainly provides for border measures and prevents dilution of certain geographical indications into generic terms.³⁶ Finally, the Lisbon Agreement for the Protection of Appellations of Origin and their International Registration of 1958 (Lisbon Agreement)³⁷ provides for an international registration system of geographical indications and strict protection.³⁸

As the following discussions will illustrate, two difficulties characterize the state of geographical indications protection through multilateral agreements before TRIPS. The agreement either leaves the scope of protection undefined (and effective protection thus depending upon the good will of each member

31. See *id.* at 13. See also Fuller, *supra* note 2 (stating the protection of geographical indications “is a highly emotional and politically sensitive question, even within Europe”).

32. See Roland Knaak, *The Protection of Geographical Indications According to the TRIPS Agreement*, in FROM GATT TO TRIPS – THE AGREEMENT ON TRADE-RELATED ASPECTS OF INTELLECTUAL PROPERTY RIGHTS 117, 119 (Friedrich-Karl Beier & Gerhard Schrickler eds., 1996). See also Conrad, *supra* note 11, at 22–23.

33. Paris Convention for the Protection of Industrial Property, Mar. 20, 1883, 21 U.S.T. 1583, 828 U.N.T.S. 305, available at <http://www.wipo.int/treaties/en/ip/paris/> (last visited Apr. 12, 2005) [hereinafter Paris Convention].

34. Conrad, *supra* note 11, at 23.

35. Madrid Agreement for the Repression of False or Deceptive Indications of Source on Goods, Apr. 14, 1891, 828 U.N.T.S. 389, available at <http://www.wipo.org/treaties/ip/madrid/> (last visited Apr. 12, 2005) [hereinafter Madrid Agreement].

36. Conrad, *supra* note 11, at 23.

37. Lisbon Agreement for the Protection of Appellations of Origin and their International Registration, Oct. 31, 1958, 923 U.N.T.S. 205, available at <http://www.wipo.org/treaties/registration/lisbon/> (last visited Apr. 12, 2005) [hereinafter Lisbon Agreement].

38. See Conrad, *supra* note 11, at 23.

country), or requires a standard of uniformity to ensure effective protection but at the cost of low membership.³⁹

A. *The Paris Convention*

The Paris Convention addressed for the first time the issue of international protection of geographical indications,⁴⁰ but that protection is very limited.⁴¹ Article 1(2) specifically includes as part of the industrial property protected by the Convention two types of geographical indications, indications of source and appellation of origin,⁴² but defines neither.⁴³ Under Article 2 of the Convention, the two types of geographical indication also benefit from national treatment.⁴⁴ However, such national treatment only affords protection to geographical indications at the same level that the law of the member country grants to its domestic geographical indications.⁴⁵ Therefore, the fact that geographical indications enjoy the same national treatment as other industrial property rights under the Paris Convention is of little value to a foreign member country if the protecting country does not have laws protecting geographical indications, or if the domestic protection is weak.⁴⁶

Although Article 10 of the Paris Convention solely concerns geographical indications and provides for border measures against the importation of goods bearing false representations of origin,⁴⁷ the Agreement does not define what constitutes a false representation.⁴⁸ Moreover, Article 10 applies only if such measures are already available under the law of the member country.⁴⁹ Thus, Article 10 essentially provides for little more than the national treatment already provided by Article 2.⁵⁰

39. *See id.* at 28.

40. *See id.* at 22.

41. *See id.* at 22–24; Knaak, *supra* note 32, at 119 (noting that the Paris Convention provides only “rudimentary protection for geographical indications”).

42. *See* Paris Convention, *supra* note 33, art. 1(2).

43. Dawson, *supra* note 1, at 591 n.4.

44. *See* Paris Convention, *supra* note 33, art. 2.

45. *See* Knaak, *supra* note 32, at 119–20.

46. *See id.* at 120.

47. *See* Conrad, *supra* note 11, at 24.

48. *Id.*

49. According to Knaak,

Article 10*bis*(3) was added to the Paris Convention in 1958.⁵¹ It prohibits indications of the goods if they are “liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability of their purpose, or the quantity of the goods.”⁵² This would seem to suggest that if the mentioning of “Champagne” on a bottle of American-made sparkling wine misleads the public to think that the wine originated in France and possesses characteristics of French Champagne, Article 10*bis*(3) would apply.⁵³

Notably, however, Article 10*bis*(3) is not applicable to representations of geographic origin.⁵⁴ The legislative history of Article 10*bis*(3) shows that the words “the origin” were struck from the proposed draft at the veto of the United States.⁵⁵ The United States insisted that including the reference to geographical origin would cause too many problems in U.S. law.⁵⁶ As a result, the Paris Convention prohibits only the importation of goods containing false geographical indications, but not the ones that are merely misleading.⁵⁷ As of January 3, 2005, the

[T]he evaluation of a direct or indirect use of a false indication of the source of goods depends solely on the understanding among the general public and the legal interpretation in the country in which protection is provided. It is these that determine whether a geographical indication is a protected indication of source or an unrestricted generic name or a fantasy designation which may also be used for products from a different geographical origin without amounting to a false indication of source.

Knaak, *supra* note 32, at 120.

50. Conrad, *supra* note 11, at 24.

51. Jose Manuel Cortes Martin, *TRIPS Agreement: Towards a Better Protection for Geographical Indications?*, 30 BROOK. J. INT'L L. 117, 123 (2004).

52. Paris Convention, *supra* note 33, art. 10*bis*.

53. See Louis C. Lenzen, *Bacchus in the Hinterlands: A Study of Denominations of Origin in French and American Wine-Labeling Laws*, 58 TRADEMARK REP. 145, 184 (1968).

54. See Conrad, *supra* note 11, at 24–25.

55. See *id.*

56. *Id.* at 25.

57. *Id.* An example of a geographical indication that is not false, but nonetheless possibly misleading is “California Chablis.” *Id.* at 25 n.73. In the Champagne example, winemakers in the Champagne District of France would claim that the Americans’ appropriation of the word “Champagne” constitutes a false indication of source under Article 10, and that it *misleads* the public as to the wine’s *characteristics* (instead of its *origin*). See Lenzen, *supra* note 53, at 184–85.

Paris Convention has 169 members, including the United States⁵⁸

B. The Madrid Agreement

The Madrid Agreement exceeded the level of protection given to geographical indications by the Paris Convention.⁵⁹ Misleading geographical indications are now prohibited under Article 1(1).⁶⁰ Article 3*bis*, as adopted by the Revision Conference of London in 1934, prohibits the use of false representations not only on the product itself but also in advertising or other forms of public announcements.⁶¹ As in the case of the Paris Convention, however, the protection of geographical indications under the Madrid Agreement also depends on the law of the country providing protection.⁶² The only exception is the heightened protection for wines under Article 4,⁶³ which prohibits member countries from treating geographical indications of wines as generic terms.⁶⁴ Article 4 is thus considered the most significant development of geographical indications in the Madrid Agreement.⁶⁵

Two factors attribute to the limitations of the Madrid Agreement. Divergent views exist regarding the construction of the text (for example, the use of terms such as “type” or “style”),⁶⁶ thus restricting the Agreement’s practical application.⁶⁷ Many

58. A list of the Paris Convention members can be found on the website of the World Intellectual Property Organization (WIPO), at <http://www.wipo.int/treaties/en/documents/word/d-paris.doc> (last visited Apr. 12, 2005).

59. See Knaak, *supra* note 32, at 120.

60. See Madrid Agreement, *supra* note 35, art. 1(1) (including in its scope of protection “all goods bearing a false or deceptive indication”).

61. Conrad, *supra* note 11, at 25.

62. See Madrid Agreement, *supra* note 35, art. 4. See also Knaak, *supra* note 32, at 120–21 (noting that under Article 4 of the Madrid Agreement provides that “the courts of the country of protection decide whether a geographical indication constitutes an indication of source protected by the Agreement or whether it is a generic name”).

63. Knaak, *supra* note 32, at 121.

64. See Conrad, *supra* note 11, at 25.

65. See *id.*

66. *Id.*

67. See *id.* See also Knaak, *supra* note 32, at 121 (“[T]he use of geographical indications of source with explanatory additions [is not] regulated by the Madrid Agreement, [and] can only be covered by the prohibition on deception.

nations have not acceded to the Agreement,⁶⁸ which is another reason why the impact of the Madrid Agreement has been minimal.⁶⁹ The United States is not a signatory to the Madrid Agreement.

C. The Lisbon Agreement

The Lisbon Agreement was another attempt to foster higher protection of geographical indications than the Paris Convention.⁷⁰ The Lisbon Agreement did not limit the protection of geographical indications to border measures, as was the focus for both the Paris Convention and the Madrid Agreement.⁷¹ Instead, the Lisbon Agreement adopted a registration system comparable to that of trademarks.⁷² Article 2(1) defines “appellations of origin” by borrowing the French interpretation of “appellations d’origine,”⁷³ and prohibits the use of indications where the quality and characteristics are “due exclusively or essentially to the geographical environment, including natural and human factors.”⁷⁴ Protection is only available, however, if these appellations of origin are “recognized and protected as such in the country of origin.”⁷⁵ Under the Lisbon Agreement, these appellations of origin are registered at the International Bureau of Intellectual Property, an agency of the World Intellectual Property Organization (WIPO).⁷⁶ Once registered, no geographical indication can become generic in any other country as long as it is protected in its country of origin.⁷⁷

Under the Lisbon Agreement, the broad protection of appellations of origin applies to “any usurpation or imitation without

The exploitation of another’s reputation without deception is not covered by the provisions of the Madrid Agreement.”)

68. As of October 15, 2004, only thirty-four States are members of the Madrid Agreement. A list of those members can be found on the WIPO website, at <http://www.wipo.int/treaties/en/documents/word/f-mdrd-o.doc> (last visited Apr. 12, 2005).

69. Conrad, *supra* note 11, at 25.

70. *See id.* at 23.

71. *Id.* at 26.

72. *See id.*

73. *See id.*

74. Lisbon Agreement, *supra* note 37, art. 2(1).

75. *Id.* art. 1(2).

76. *See* Conrad, *supra* note 11, at 26.

77. *See id.*

the pre-condition of a risk of confusion.”⁷⁸ The comprehensive protection under Article 3 also prevents trademark registration in the member states.⁷⁹

The fundamental problem with the Lisbon Agreement is its low membership:⁸⁰ as of February 16, 2005, only twenty-three countries have signed it.⁸¹ Many countries who traditionally have been interested in the extensive protection of geographical indication have failed to join the Lisbon Agreement⁸² because of its excessively narrow approach.⁸³ The Agreement’s provisions, designed to suit the requirements of geographical indications for wines, are found to be unsuitable for most other geographical indications.⁸⁴ Because the Lisbon Agreement presupposes a national system of protection such as the French system of appellations d’origine,⁸⁵ other existing forms of protection (such as protection through the law of unfair competition against the misleading use of geographical indications) do not meet the Lisbon Agreement’s requirement for protection in the country of origin.⁸⁶

Another important factor preventing countries from signing up is the issue of genericness. The Lisbon Agreement does not make exceptions for terms that have already become generic in some member countries.⁸⁷ That was the main reason why the United States has not signed the Lisbon Agreement.⁸⁸ The issue of genericness has also hindered the negotiations process of the

78. Knaak, *supra* note 32, at 121.

79. *See id.*

80. *See* Conrad, *supra* note 11, at 26.

81. A list of the members can be found on the WIPO website, at <http://www.wipo.int/treaties/en/documents/word/j-lisbon.doc> (last visited Apr. 12, 2005).

82. Conrad, *supra* note 11, at 26 n.76 (“Countries which have traditionally protected geographical indications such as Switzerland, Spain, or Germany have not become members.”).

83. *See* Knaak, *supra* note 32, at 122.

84. *See id.*

85. *Id.*

86. *See* Conrad, *supra* note 11, at 26.

87. *Id.*

88. *Id.* at 26 n.77 (noting that on the issue of genericness, “the [Lisbon] Agreement is directly contrary to the United States trademark law and the Bureau of Alcohol, Tobacco and Firearms (BATF) regulations and was the main reason why the United States has not become a member”) (internal citation omitted).

TRIPS Agreement,⁸⁹ which used the relatively high standard of geographical indications protection of the Lisbon Agreement as one of its drafting models.⁹⁰

III. TRIPS AND LATER DEVELOPMENTS

The TRIPS Agreement, which became effective on January 1, 1995,⁹¹ brought two important changes to the protection of geographical indications. For the first time, promises to protect geographical indications are backed with enforcement provisions.⁹² Compared with previous international treaties on the protection of geographical indications, TRIPS also had at the time the greatest number of signatories,⁹³ with all WTO members signatories to the Agreement.⁹⁴ TRIPS' unprecedented membership helped establish its status as a breakthrough in the field of international protection of geographical indications.⁹⁵

A. General Substantive Standards

TRIPS defines the term "geographical indications" as "indications which identify a good as originating in the territory of a Member or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin."⁹⁶ Article 22 provides a standard level of protection and covers all products

89. *See id.* at 26.

90. *Id.* at 23.

91. WTO, *TRIPS: Overview: The TRIPS Agreement*, http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm (last visited Apr. 12, 2005) (providing a broad overview of the Agreement and its aspects).

92. *See* Conrad, *supra* note 11, at 28 (noting that the "TRIPS provisions on dispute settlement may be the most important change in the protection of geographical indications").

93. *Id.* at 31.

94. Stacy D. Goldberg, Comment, *Who Will Raise the White Flag? The Battle between the United States and the European Union over the Protection of Geographical Indications*, 22 U. PA. J. INT'L ECON. L. 107, 116 (2001).

95. *See id.* The WTO has 148 members as of February 16, 2005. For a list of the WTO members, see WTO, *Understanding the WTO: The Organization: Members and Observers*, http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (last visited Apr. 12, 2005).

96. TRIPS, *supra* note 4, art. 22.1.

qualified for protection as geographical indications under TRIPS.⁹⁷

Article 22.1 limits protection to products for which a relationship between their qualities or characteristics and their origin can be demonstrated.⁹⁸ TRIPS, however, does not offer any test for what is considered “essentially attributable.”⁹⁹ Much like the protection of all other intellectual property rights under TRIPS, protection under Article 22.1 is subject to the laws of the country where protection is being sought, and each member nation would independently decide which indications fall under the protection of TRIPS.¹⁰⁰

This lack of standards may be critical in the implementation of the TRIPS geographical indications provisions, as the determination and evaluation of the connection between a good and its geographical origin is necessary for protection under Article 22.¹⁰¹ As this Note will discuss, the fact that this protection is subject to the principle of the country of protection is also one of the reasons some countries, led by the EU, want to extend the Article 23 protection for wines and spirits to all geographical indications.¹⁰²

Which goods are protected under Article 22 also remains an open debate. Some scholars argue that because the final

97. WTO, *TRIPS: Geographical Indications: Background and the Current Situation*, http://www.wto.org/english/tratop_e/trips_e/gi_background_e.htm (last updated Feb. 26, 2004) [hereinafter *TRIPS Current Situation*].

98. See Conrad, *supra* note 11, at 32.

99. *Id.*

100. See Knaak, *supra* note 32, at 128 (stating that protection for geographical indications under TRIPS “is basically subject to the principles of territoriality and the rules of the country of protection”).

101. See *id.* (“The determination and evaluation of this necessary connection between good and its geographical origin will no doubt be one of the most difficult tasks in the application and implementation of the TRIPS provisions on geographical indications.”). Conrad argues that the lack of standard may be even more critical for the implementation of TRIPS compared to the Lisbon Agreement, because the Lisbon Agreement limits protection only to those geographical indications that are protected “as such” in their countries of origin and registered at the International Bureau of Intellectual Property, whereas the TRIPS Agreement contains no such limitations. See Conrad, *supra* note 11, at 32.

102. See Proposal for Extension, *supra* note 5, para. 13 (arguing that protection of geographical indications under Article 22 is subject to inconsistent interpretation by each member country).

Agreement does not contain the words “including natural and human factors,” which are part of the Lisbon definition and were proposed in the EU draft, this omission may be construed to exclude human factors.¹⁰³ Under this view, the scope of protection under Article 22 may be narrowed “almost exclusively to agricultural products; manufacturers are not protected even if their product is ‘essentially’ linked to the cultural heritage of the region.”¹⁰⁴ Others, however, argue that the plain language of Article 22.1 makes clear that all goods, including industrial goods, are protected, because the TRIPS definition does not expressly contain product-specific limits to the scope of protection.¹⁰⁵

Protection of geographical indications under Article 22 is through general prohibition on deceptive use, similar to the Madrid Agreement, and additionally against unfair competition by incorporating Article 10*bis* of the Paris Convention.¹⁰⁶ Article 22.2(a) imposes two requirements in determining a violation of geographical indication: a representation on a good suggesting its origin, and this suggestion being false or misleading.¹⁰⁷ Although Article 22.2(a) does not explicitly prohibit the use of geographical indications with explanatory additions, such use may be covered if it is found to create the risk of deception or

103. See, e.g., Conrad, *supra* note 11, at 33 (arguing that omission of the words “including natural and human factors” may significantly narrow the scope of TRIPS geographical indications, but noting that excluding tradition and craftsmanship from geographical indications protection appears to be contrary to the general concept of TRIPS).

104. *Id.*

105. See, e.g., Knaak, *supra* note 32, at 128 (comparing the TRIPS geographical indications definition with the relevant EU Regulation, Council Regulation No. 2081/92, which contains language limiting its application to certain agricultural products and foodstuffs). EU Council Regulation No. 2081/92 establishes protection of geographical indications for agricultural products that are not viticultural products or alcoholic drinks and for foodstuffs. See Council Regulation 2081/92/EEC of 14 July 1992 on the Protection of Geographical Indications and Designations of Origin for Agricultural Products and Foodstuffs, 1992 O.J (L 208) 1.

106. See Knaak, *supra* note 32, at 130. Article 22.2 of TRIPS requires member countries to protect geographical indications (a) against any use of designations or presentation of goods that “misleads the public as to the geographical origin of the good,” and (b) against any use that constitutes an act of unfair competition within the meaning of Article. 10*bis* of the Paris Convention (1967).” TRIPS, *supra* note 4, art. 22.2.

107. See Conrad, *supra* note 11, at 34.

public confusion.¹⁰⁸ Additionally, Article 22.4 prohibits the use of a statement that is “literally true as to the territory, region or locality in which the goods originate,” but nonetheless “falsely represents to the public that the goods originate in another territory.”¹⁰⁹ This is the issue of the so-called homonymous geographical indications.¹¹⁰ An example would be that “a couturier from Paris, Texas, may not use the mark PARIS on his clothes – notwithstanding geographical truth – if consumers would believe that those clothes came from Paris, France.”¹¹¹

TRIPS is also the first international agreement to provide additional protection of geographical indications in the context of laws concerning trademark registration.¹¹² Article 22.3 prohibits granting trademark registration which contains or consists of a geographical indication when the goods do not originate in the territory indicated, if the use of the indication in the trademark misleads the public.¹¹³ Member countries are required to “*ex officio* if its legislation so permits or at the request of an interested party, refuse or invalidate” such trademark registration.¹¹⁴

B. Additional Protection for Wines and Spirits

Article 23 of TRIPS provides a higher level of protection for wines and spirits. Article 23.1 states that members “shall prevent use of a geographical indication identifying wines [and spirits] not originating in the place indicated by the geographical indication in question ... even where the true origin of the goods is indicated....”¹¹⁵ Further, this prohibition applies to where “the geographical indication is used in translation or accompanied by expressions such as ‘kind’, ‘type’, ‘style’, ‘imitation’ or the like.”¹¹⁶ Usages such as “California Chablis,” “American Champagne,” and a sparkling wine “type Cham-

108. Knaak, *supra* note 32, at 130.

109. TRIPS, *supra* note 4, art. 22.4.

110. See Knaak, *supra* note 32, at 131.

111. GRAEME DINWOODIE ET AL., INTERNATIONAL INTELLECTUAL PROPERTY LAW 19 (2001).

112. See Knaak, *supra* note 32, at 131.

113. See TRIPS, *supra* note 4, art. 22.3.

114. *Id.*

115. TRIPS, *supra* note 4, art. 23.1.

116. *Id.*

pagne” would thus fail this standard even if they are truthful statements.¹¹⁷

Article 23 is undoubtedly a higher standard of protection because geographical indications relating to wines and spirits are protected even when there is no danger that the public may be misled.¹¹⁸ Therefore, it is of no consequence that, in the United States, Champagne and Chablis are considered semi-generic terms.¹¹⁹ This “absolute prohibition” standard¹²⁰ thus precludes the defense available under Article 22 that the presentation of the goods is not misleading or deceptive.¹²¹

Although Article 23 seeks to implement an effective standard of protection against using names of wines and spirits as generic terms,¹²² TRIPS does not attempt to reverse or disturb the status quo, and exceptions to Article 23 protection are provided.¹²³ Article 24.6 exempts a member from the obligation to provide protection if a geographical designation has become a generic term in the member country.¹²⁴ It further provides an

117. See Conrad, *supra* note 11, at 39–40.

118. See Knaak, *supra* note 32, at 132.

119. See 27 C.F.R. § 4.24 (2005) (legislating the labeling and advertising of wines and providing examples of generic, semi-generic and non-generic names). The BATF’s classification of geographic indications for wines may be inconsistent with TRIPS. See Peter M. Brody, *Protection of Geographical Indications in the Wake of TRIPS: Existing United States Laws and the Administration’s Proposed Legislation*, 84 TRADEMARK REP. 520, 530 (1994) (arguing that the BATF list may be inconsistent with TRIPS, but the BATF may claim that the “semi-generic” category falls under one or more of TRIPS Article 24 exceptions).

120. Knaak, *supra* note 32, at 132.

121. See Conrad, *supra* note 11, at 39.

122. See *id.* at 39–40.

123. See *id.* at 43 (noting that Article 24.4, which addresses the issue of parallel use of geographical names for wines and spirits “is tantamount to an acknowledgement that TRIPS does not and cannot reverse past development in the field”).

124. Article 24.6 of TRIPS states:

Nothing in this Section shall require a Member to apply its provisions in respect of a geographical indication of any other Member with respect to goods or services for which the relevant indication is identical with the term customary in common language as the common name for such goods or services in the territory of that Member. Nothing in this Section shall require a Member to apply its provisions in respect of a geographical indication of any other Member with respect to products of the vine for which the relevant indication is identical with

exception specifically for wines. Insofar as wines are usually named after grape varieties, use of the grape name is allowed if the grape existed in the member's territory at the time of entry into force of the WTO Agreement.¹²⁵ In addition, Article 24.4 permits parallel use of geographical indications for wines and spirits if a name has been in continuous use for at least ten years before the TRIPS Agreement or has been in use "in good faith" before TRIPS.¹²⁶ The case of Budweiser beer is perhaps the most famous example for "continuous use."¹²⁷ The region of Budweis, Bohemia has been brewing beer since the thirteenth century and named its beer accordingly.¹²⁸ Budweiser, however, has also been the name of a well-known American beer since the nineteenth century.¹²⁹ The TRIPS Agreement does not attempt to decide this dispute; rather, it allows parallel use of the term and leaves it to the parties to fight the name war.¹³⁰ Finally, Article 23 is also subject to the general exceptions of Article 24, discussed below.

The provision on wines and spirits was one of the "most closely fought-over provisions in the whole GATT."¹³¹ The United States delegation charged that the EU was attempting to reinstitute terms that have lost meaning as geographic indications and become generic terms in the United States, terms

the customary name of a grape variety existing in the territory of that Member as of the date of entry into force of the WTO Agreement. TRIPS, *supra* note 4, art. 24.6.

125. *See id.*

126. *See* Conrad, *supra* note 11, at 43. Conrad used the case of "Bocksbeutel" as an example of use in good faith. The European Court of Justice (ECJ) held in the Bocksbeutel case that Germany could not limit the importation of an Italian wine on the grounds that the wine bottle resembles the distinctive "Bocksbeutel" bottles, although the "Bocksbeutel" bottle was protected as an indication of origin in Germany. The ECJ found that the Italian wine producers did not choose the bottle design for the resemblance; rather, they had been using it for over a hundred years. *See id.*

127. *Id.*

128. *Id.*

129. *Id.*

130. *Id.* *See also* Robert Anderson, *Pressure Mounts in Battle of the Budweiser Brands: End of Century-Old Dispute between Czech and US Breweries May Be Near*, FIN. TIMES (London), Dec. 2, 2003, at 24 (noting that "with the two breweries fighting about 30 legal cases in 25 countries, even their senior executives cannot say exactly how many").

131. Conrad, *supra* note 11, at 38.

such as “Champagne” and “Chablis.”¹³² The current debate on the extension of the Article 23 protection largely echoes this theme.

C. General Exceptions

In addition to the exceptions already noted, Article 24 of the TRIPS Agreement also contains other important exceptions. Article 24.5 provides two exceptions in the context of trademark registration.¹³³ A trademark registered in good faith that is identical to a geographical indication will remain valid under Article 24.5 if it was registered (a) before the TRIPS Agreement, or (b) before the geographical indication is protected in its country of origin.¹³⁴ However, questions remain as to the meaning of “in good faith.”¹³⁵ Section (b) poses the scenario of particular concern to developing countries, in which if a country does not yet have a system of protecting geographical indications, it may find its names registered as trademarks in other countries.¹³⁶ The fight between India and an American company over the registration of “basmati” as both a patent and trademark in the United States illustrates this potential problem. The basmati rice case is discussed further in Section IV of this Note.

Finally, Article 24.9 provides another noteworthy exception, essentially one from the national treatment concept.¹³⁷ A member is not obligated to protect geographical indications that are not protected in their country of origin.¹³⁸

132. *Id.* at 40.

133. *See* Knaak, *supra* note 32, at 136.

134. *See id.* According to Knaak, combination trademarks including the name “Chablis” could remain valid if registered in good faith. *See id.* at 137. *See also* Conrad, *supra* note 11, at 42 (discussing whether “Chablis With A Twist” can be considered to be “in good faith” within the meaning of Article 24.5).

135. *See* Conrad, *supra* note 11, at 42 (arguing that although “in good faith” may be interpreted as “not knowing the rights of other parties,” as the term is commonly understood, construing the term to mean “without deceptive or misleading intent” here may be more adequate considering the purpose of Article 24.5).

136. *See id.*

137. *See id.* at 44.

138. TRIPS, *supra* note 4, art. 24.9 (“There shall be no obligation under this Agreement to protect geographical indications which are not or cease to be

D. Recent Developments

The Doha Round mandates further debates on two separate issues concerning the protection of geographical indications: creating a multilateral register for wines and spirits, discussed briefly below; and extending the higher (Article 23) level of protection beyond wines and spirits,¹³⁹ discussed in Section IV.

Two sets of proposals on a multilateral registration system are currently on the table.¹⁴⁰ The United States, along with sixteen other member states, proposes “a voluntary system where notified geographical indications would be registered in a database.”¹⁴¹ The EU and another sixteen member states propose a registration system that establishes a “presumption” that the geographical indication is protected in all other countries.¹⁴² Under this proposal, once a term is registered, no country could refuse protection unless it has challenged the term within eighteen months.¹⁴³ Since any registration system would involve the various legal systems of each member country, countries are deeply concerned about the kind of legal effect such a system may have and the administrative and financial costs for individual members.¹⁴⁴ The Doha Declaration sets a deadline for an agreement for the Cancun Ministerial Conference,¹⁴⁵ which, however, collapsed on September 14, 2003.¹⁴⁶

IV. EXTENSION OF ARTICLE 23 PROTECTION

TRIPS members also remain deeply divided over the issue of extending Article 23 protection to products other than wines and spirits.¹⁴⁷ The EU along with twenty other countries advo-

protected in their country of origin, or which have fallen into disuse in that country.”).

139. *TRIPS Current Situation*, *supra* note 97.

140. *See id.*

141. *Id.*

142. *Id.*

143. *Id.*

144. *See id.* For a discussion of the differences in legal systems between the United States and the EU countries, see Conrad, *supra* note 11, at 17–22.

145. *TRIPS Current Situation*, *supra* note 97.

146. *See* Guy De Jonquieres & Frances Williams, *Investment Row Causes WTO Talks to Collapse*, *FIN. TIMES* (London), Sept. 15, 2003, at 1 (reporting on the collapse of the Cancun Ministerial Conference).

147. *TRIPS Current Situation*, *supra* note 97.

cates the extension.¹⁴⁸ These countries contend that extending Article 23 protection will protect all geographical indications equally,¹⁴⁹ by eliminating the elements of deceptiveness and public confusion currently required under Article 22, the extension will avoid inconsistency in implementation due to each member country's individual determination under their own laws as well as costly, individualized legal battles.¹⁵⁰ Proponents for extension of Article 23 also claim that other countries are "usurping" their geographical indications.¹⁵¹ Notably, the EU position has received a boost from some developing countries, led by India, who see Article 23 as a means to protect their biodiversity resources, a need unique to developing countries.¹⁵²

Opponents of extension, such as the United States, argue that existing Article 22 protection is already adequate.¹⁵³ These countries frame the debate as one between the "new world" and the "old world" countries;¹⁵⁴ considering the "new world countries" stand to gain very little by agreeing to provide additional protection, extension of Article 23 would be expensive and hard to justify.¹⁵⁵ They reject the "usurpation" accusation, emphasizing that, in many cases, immigrants made the products well known by continuing to make and consume them in their new homes,¹⁵⁶ and it is these very products whose names the European countries are now trying to take back.¹⁵⁷

148. See Proposal for Extension, *supra* note 5, paras. 4, 12.

149. See *id.* para. 4.

150. See *id.* para. 13.

151. See *TRIPS Current Situation*, *supra* note 97. See also Extension Work Program, *supra* note 9, para. 10.

152. See *India Calls for Harmonising TRIPS with CBD*, HINDU, Sept. 3, 1999, available at 1999 WLNR 4582558 [hereinafter *India Calls for Harmonization*] (delineating developing countries' need for special protection to ensure conservation of biological resources and equitable share of benefits from their use, and India's proposed provisions including extension of Article 23 to meet such need).

153. Implications of Extension, *supra* note 20, paras. 6–9.

154. See *TRIPS Current Situation*, *supra* note 97.

155. See Implications of Extension, *supra* note 20, paras. 4, 13–26.

156. See *TRIPS Current Situation*, *supra* note 97 (stating that countries opposing the Article 23 extension reject the "usurping" accusation "particularly when migrants have taken the methods of making the products and the names with them to their new homes").

157. See Implications of Extension, *supra* note 20, para. 7.

The current debate over the extension of Article 23 is an interesting hybrid of the North-North face-off and North-South divide.¹⁵⁸ On one hand, the ongoing fight led by the EU and the United States echoes in many ways the fiercely-fought battles between the two major trade partners during the negotiations leading up to the TRIPS Agreement.¹⁵⁹ On the other hand, while geographical indications started out largely as a North-North issue, developing countries have now joined the debate as the biodiversity-rich South seeks protection from exploitation by the industrialized North.¹⁶⁰ This Section examines the proposed extension of Article 23 in both contexts.

A. *The Battle between Europe and the United States*

The current fight between the United States and the EU may be viewed as an extension of the old battle leading up to the TRIPS Agreement. The EU has continued to push the agenda it had to compromise in 1994 in order to reach an agreement¹⁶¹ and the United States, contending that extending Article 23 would force upon countries with few geographical indications obligations disproportionate to the possible benefits,¹⁶² is reluc-

158. See Long, *supra* note 10, at 222–23 (arguing that although the disputes over geographic indications demonstrate the on-going and increasingly heated North-North debates, the North-South debates and their underlying power imbalance remain the most problematic in intellectual property rights).

159. See Conrad, *supra* note 11, at 31 (noting the atypical line-up in the battles fought between the United States and the EU during TRIPS negotiations on geographical indications), 38 (commenting on the debate between the U.S. and the EU over the protection of wines and spirits, “the most closely fought-over provisions in the whole GATT”).

160. See *India Calls for Harmonization*, *supra* note 152. See also Shalini Bhutani & Ashish Kothari, *Rio’s Decade: Reassessing the 1992 Earth Summit: Reassessing the 1992 Biodiversity Convention: The Biodiversity Rights of Developing Nations: A Perspective from India*, 32 GOLDEN GATE U.L. REV. 587, 603–05 (2002) (urging developing countries to explore protection of their bio-resources under geographical indications of TRIPS).

161. See Conrad, *supra* note 11, at 45–46 (stating that the battle between the European Community and the United States led to a compromise that is the current TRIPS protection of geographical indications).

162. See *Implications of Extension*, *supra* note 20, paras. 3–4. According to the United States,

One Member may only have a few geographical indications for domestic products in which it is interested, but would be obliged to provide the means to protect hundreds or thousands of GIs from Mem-

tant to make any further concessions. In light of the recent WTO panel rulings mandating the EU to bring its geographical indications regulations into compliance with the TRIPS,¹⁶³ the United States now expects to see U.S. products such as the Idaho potato and Florida orange protected as geographical indications under the EU system in the near future.¹⁶⁴ There is therefore even less reason for the United States (and other countries opposing Article 23 extension) to work with the EU mandate or the EU model of geographical indications protection.

The difference between the U.S. and EU legal systems is also of serious concern to the Americans resisting further demands from the Europeans for additional protection of geographical indications.¹⁶⁵ The United States was able to accept the higher level of protection of Article 23 for wines and spirits because its existing system allows it to carry out that obligation through the regulatory power of the Bureau of Alcohol Tobacco and Firearms (BATF) over the use of geographical indications for alcohols.¹⁶⁶ Extending the Article 23 level of protection to all geographical indications would therefore be very problematic for the U.S. legal system¹⁶⁷ which, unlike the EU, does not have a registration mechanism for geographical indications and pri-

bers with formal systems for such indications.... This imbalance is exacerbated by the fact that, under the current EC regulations, the EC does not appear to provide protection for non-EC geographical indications ... except on the basis of bilateral agreements, or if the EC has determined that a country has a system for geographical indications that is equivalent to the detailed system of the EC.

Id. para. 4.

163. See Panel Report, *supra* note 21, §§ 8.4–8.5.

164. The United States interprets the WTO panel ruling to mean that U.S. products such as the Idaho potato and Florida orange would now be entitled to protection as geographical indications in the EU. See USTR Press Release, *supra* note 22.

165. See Implications of Extension, *supra* note 20, paras. 16, 20 (emphasizing that providing additional protection under Art. 23 would disturb the existing U.S. model of protection under the U.S. legal system). For a discussion of the differences in legal systems between the United States and the EU countries, see Conrad, *supra* note 11, at 17–22.

166. See Peter N. Fowler & Alice T. Zalik, *Globalization's Impact on International Trade and Intellectual Property Law: A U.S. Government Perspective Concerning the Agreement on the Trade-Related Aspects of Intellectual Property: Past, Present and Near Future*, 17 ST. JOHN'S J.L. COMM. 401, 407 (2003).

167. See *id.*

marily provides for protections through trademark laws, and which recognizes such protection as a matter of private right.¹⁶⁸ Requiring countries such as the United States to change their legal systems to accommodate the protection of geographical indications belonging to other countries may also offend the principle of territoriality.¹⁶⁹

Moreover, the EU demand for absolute protection of its geographical indications is difficult to justify with possible economic and consumer benefits. It has been argued that the potential economic benefits of geographical indications protection are elusive at best.¹⁷⁰ Meanwhile, geographical indications protect, almost indefinitely,¹⁷¹ what has been done in the past rather than encourage innovation, an important value underlying other forms of intellectual property rights such as patent and trademark.¹⁷² The element of consumer benefit is also lacking. Much of the EU extension proposal concerns food names already well recognized by consumers.¹⁷³ Additional protection of these geographical indications at the Article 23 level would, therefore, serve more protectionist purposes while offering little

168. See Conrad, *supra* note 11, at 20 (stating that the concept of the Anglo-American certification mark is a regime of private, not public law); Implications of Extension, *supra* note 20, paras. 7–8 (asserting that the United States treats geographical indications as private rights).

169. See Jim Chen, *A Sober Second Look at Appellations of Origin: How the United States Will Crash France's Wine and Cheese Party*, 5 MINN. J. GLOBAL TRADE 29, 53 (1996) (arguing that U.S. refusal to protect French geographical indications that “mean nothing to the American consumer” would be consistent with the international legal principle of territoriality).

170. See Conrad, *supra* note 11, at 12 (stating that “the economic importance of geographical indications is very hard to determine”).

171. See TRIPS: What Are Intellectual Property Rights?, http://www.wto.org/english/tratop_e/trips_e/intel1_e.htm (last visited Apr. 12, 2005) (stating that the protection of geographical indications “may last indefinitely”).

172. See, e.g., David R. Downes, *How Intellectual Property Could Be a Tool to Protect Traditional Knowledge*, 25 COLUM. J. ENVTL. L. 253, 259 (2000) (arguing that geographical indications are intended “not to reward innovation, but rather to reward members of an established group or community for adhering to traditional practices”).

173. See Tobias Buck, *Brussels Heads for Controversy over Famous Food Names*, FIN. TIMES, Aug. 28, 2003, at 7 (noting that the EU list of food names it intends to take back from producers outside Europe includes famous names such as Champagne, Bordeaux, Parma ham, Roquefort and Feta).

in terms of protecting consumers or enhancing consumer choice in the marketplace.

Although the EU proposal for extending Article 23 protection does not explicitly suggest establishing a registration system similar to the one in the EU, countries such as the United States believe it is foreseeable that the EU demands would inevitably lead to such a system in order to facilitate the proposed higher protection.¹⁷⁴ However, the EU model of geographical protection may make for a poor export when faced with a drastically different American legal system and consumer culture.¹⁷⁵ It would therefore be in both parties' interests for the European countries to adapt to the legal and cultural realities in the United States and take advantage of the protections currently available through the U.S. legal system.¹⁷⁶

Moreover, the EU would also be well advised to shift its focus from fighting legal battles to educating consumers through more aggressive marketing campaigns,¹⁷⁷ because in the long run the fight over geographical indications is likely non-legal.¹⁷⁸

174. See Implications of Extension, *supra* note 20, para. 19.

175. In his article comparing the French system of appellations of controlled origin (AOC) to the U.S. legal system, Chen comments on the lack of geographical indication protection in American jurisprudence:

The very idea of an AOC is alien to American law and American culture.... In a legal system whose constitution forbids the granting of perpetual patents and copyrights, the indestructible appellation of origin has little chance of finding a warm reception. American intellectual property law is designed to maximize dissemination of knowledge through expansion of the public domain and minimized grants of proprietary protection. The United States has long favored a positive law theory of intellectual property over a natural law theory, emphasizing the "limited" nature of "monopoly privileges" as a necessary evil over the putatively natural birthright of the inventor to prevent others from reaping where she has sown.

Chen, *supra* note 169, at 58.

176. See *id.* at 58–63. See also Implications of Extension, *supra* note 20, in which the United States asserts that geographical indications such as Stilton for cheese, Parma for ham, Roquefort for cheese, and Swiss for chocolate already receive Article 22 level protection because the owners of the geographical indications have taken steps to prevent unauthorized uses in the United States.

177. See Chen, *supra* note 169, at 63–64.

178. See *id.* at 53 (commenting that the decisive factors in a fight over geographical indications will be commercial, cultural and linguistic, instead of legal).

A wine connoisseur hardly needs an international treaty to tell him that Chablis from a certain region southeast of Paris will guarantee a certain satisfaction, while to an ordinary consumer without such knowledge the particular geographical indication would probably matter very little.¹⁷⁹ Increasing the recognition of geographical indications through marketing campaigns would also likely be a feasible approach because, compared to developing countries, the European countries are more likely to be able to afford using its resources for consumer education in the marketplace.

B. The Stakes for Developing Countries

Demand for extension of the Article 23 protection from developing countries such as India, Pakistan and Thailand takes the debate out of the North-North standoff between the United States and the European countries. These developing countries seek to utilize TRIPS provisions on geographical indications to protect their unique agricultural products such as basmati rice and jasmine rice. In addition, they hope to rely on geographical indications to protect their rich biodiversity resources and prevent traditions and indigenous communities from being exploited by the developed world.¹⁸⁰ This invokes the North-South dichotomy that characterizes much of the debate on other intellectual property issues covered by the TRIPS.¹⁸¹

Since the beginning of the TRIPS Agreement, developing countries have criticized it as benefiting developed countries at the expense of developing countries.¹⁸² Commentators predicted before TRIPS took place that stronger protection of intellectual property rights would further disadvantage developing countries because they would lose access to affordable medicines, educational materials, and agricultural supplies.¹⁸³ Some claim

179. See *id.* at 57–58.

180. See Bhutani and Kothari, *supra* note 160, at 604–05.

181. See Conrad, *supra* note 11, at 31 (observing that the typical line-up in other TRIPS topics involved battles between the first and the third world).

182. See Jagdish Bhagwati, *The Boundaries of the WTO: Afterword: The Question of Linkage*, 96 A.J.I.L. 126, 127–28 (2002) (arguing that TRIPS is “in the main a payment by the poor countries (which consume intellectual property) to the rich countries (which produce it)”).

183. See Frank Emmert, *Intellectual Property in the Uruguay Round – Negotiating Strategies of the Western Industrialized Countries*, 11 MICH. J. INT’L

that the TRIPS Agreement is “a continuation of over 500 years of colonialism of developing countries,” in that it drains wealth and resources from the Third World countries and transfers it back to developed counties under the protection of intellectual property laws.¹⁸⁴

Although the major battles on geographical indications were initially fought mainly between the United States and the EU,¹⁸⁵ the issue has now become part of the larger North-South debate over TRIPS provisions in general. Developing countries charge that granting special protection for wines and liquors under Article 23 disproportionately favors the North because geographical indications concentrate in developed countries that stand to benefit most from these provisions.¹⁸⁶ India, in particular, has been a proponent since the WTO's Seattle Meeting for extending Article 23 to all agricultural products in order to ease the North-South divide.¹⁸⁷

This Section will first examine India's involvement in the debate of geographical indications protection, as illustrated by its efforts to protect its indigenous culture in the fights over the patents on the neem tree and basmati rice obtained by U.S. companies, and its advocacy for extending Article 23 protection to all geographical indications. It will then analyze whether heightened geographical indications protection under TRIPS would be a fitting solution to India's problems, which may be concerns also shared by other developing countries.

1. Neem Tree

At the time TRIPS was passed, India was still suffering the aftermaths of the “neem tree incident.”¹⁸⁸ Referred to as “the village pharmacy,”¹⁸⁹ the neem tree is native to India and traditionally used by the Indian people for many medicinal pur-

L. 1317, 1383–84 (1990) (arguing that farmers, students, and the sick in developing countries rely on cheap access to seeds, education and drugs).

184. Kruger, *supra* note 13, at 170–71.

185. Conrad, *supra* note 11, at 31.

186. Bhutani and Kothari, *supra* note 160, at 604.

187. Kruger, *supra* note 13, at 176 n.43.

188. *Id.* at 173.

189. Charles R. McManis, *The Interface between International Intellectual Property and Environmental Protection: Biodiversity and Biotechnology*, 76 WASH. U. L. Q. 255, 257 (1998).

poses.¹⁹⁰ W.R. Grace, an agricultural chemical company based in Florida, developed the technology to extract the active ingredient in the neem tree seed in a stable solution and patented the stabilization process and the stabilized form of the ingredient with the United States Patent Office (USPTO).¹⁹¹ W.R. Grace then obtained a European patent jointly with the United States Department of Agriculture (USDA) on the manufacturing process of the neem tree seed oil as a fungicide.¹⁹² These patents meant that India, despite its ownership of the neem tree and having used the medicinal plant for centuries, had no legal rights to develop the plant for medicinal or curative purposes.¹⁹³

The W.R. Grace patents provoked vehement public outcry in India¹⁹⁴ and led to India's long journey to reclaim the neem tree.¹⁹⁵ India was eventually successful in its legal challenge of the U.S. acquisition of its neem tree ingredient before the European Patent Office (EPO). After six years of persistent campaigning by India, the Opposition Division of the EPO completely revoked the patent granted to the USDA and W.R. Grace.¹⁹⁶ The EPO also rejected W.R. Grace's subsequent appeal.¹⁹⁷

2. Basmati Rice

India had a similar incident with its renowned basmati rice, a staple of its national diet and a major source of its export reve-

190. For detailed description of the neem tree's medicinal properties, see Vandana Shiva, *The Neem Tree – a Case History of Biopiracy*, at <http://www.twinside.org.sg/title/pir-ch.htm> (last visited Apr. 11, 2005).

191. U.S. Patent No. 5,124,349 (issued June 23, 1992). For detailed discussions of W.R. Grace's U.S. patent, see Shiva, *supra* note 190; McManis, *supra* note 189, at 258.

192. European Patent No. 436 257 B1 (issued Sept. 14, 1994).

193. See Frederick Nzwili, *Multinationals Lose Exclusive Rights over Neem Tree*, AFR. NEWS SERV., May 22, 2000.

194. See McManis, *supra* note 189, at 257–59 (describing the violent demonstrations in India provoked by the neem tree patents).

195. See Nzwili, *supra* note 193 (reporting on events surrounding the revocation of W.R. Grace's European patent).

196. See *id.*

197. See *EU Upholds Ruling Revoking Neem Patent for US Co.*, BUS. LINE, Mar. 10, 2005.

nue.¹⁹⁸ Traditionally, only long grain aromatic rice grown in certain regions of India and Pakistan can be called basmati.¹⁹⁹ In 1997, an American company, RiceTec Inc., obtained a patent from the USPTO to grow and call the aromatic rice grown outside India "basmati."²⁰⁰ With the basmati patent rights, RiceTec would not only be able to call its aromatic rice basmati within the United States, but also label it as such for its exports.²⁰¹ This had serious ramifications for India. Not only would the patent affect India's basmati export to the United States, an important market for India,²⁰² it could also cause India to lose its position in other crucial international markets such as the EU, United Kingdom, Middle East and West Asia.²⁰³

Economic consequences aside, because basmati is considered a national heritage of India, people in India felt the patent was "like snatching away our history and culture."²⁰⁴ Like the neem tree patents, the basmati patent provoked large demonstrations in India.²⁰⁵ The Indian government reacted strongly to the granting of the U.S. basmati patent, urging the USPTO to re-examine the patent in order to protect India's interests, particularly those of India's growers and exporters.²⁰⁶

India also considered protecting its prized basmati rice under the TRIPS geographical indications provisions, and has since become a zealous advocate for extending the Article 23 protec-

198. See *UPI Farming Today*, UPI, Feb. 16, 1998, LEXIS, Nexis Library, UPI File [hereinafter *UPI Farming*] (stating that India exports about half a million tons of basmati rice annually).

199. See GRAHAM DUTFIELD, *INTELLECTUAL PROPERTY RIGHTS, TRADE AND BIODIVERSITY, SEEDS AND PLANT VARIETIES* 87 (1999).

200. U.S. Patent No. 5,663,484 (issued Sept. 2, 1997).

201. See Shantanu Guha Ray, *The Stealing of Basmati*, at <http://www.rediff.com/business/1998/mar/12rice.htm> (Mar. 12, 1998).

202. See Kunal Bose, *India to Fight U.S. Move on Basmati Rice*, FIN. TIMES (London), Feb. 25, 1998, at 35 (noting that at the time of the basmati patent, India exported some forty-five thousand tons of basmati rice annually to the United States).

203. See Ray, *supra* note 201.

204. *UPI Farming*, *supra* note 198.

205. See Saritha Rai, *India-U.S. Fight on Basmati Rice Is Mostly Settled*, N.Y. TIMES, Aug. 25, 2001, at C1 (noting demonstrations in India against the basmati patent).

206. See *id.*

tion to products other than wines and spirits.²⁰⁷ India asserts that because the unique quality of basmati rice is closely related to specific regions of India where the long grain rice is traditionally grown, basmati should be protected as a geographical indication under TRIPS just like Champagne and Scotch.²⁰⁸

The bitter fight over the U.S. patent on basmati rice was largely settled when the USPTO eventually granted a narrower patent to RiceTec.²⁰⁹ Satisfied that the new patent, limited to just a few variations of the rice developed by RiceTec, would not harm India's own export of traditional basmati rice, India decided not to further dispute the patent.²¹⁰

3. Implications of the Neem and Basmati Incidents

Despite India's successes in challenging the neem tree and basmati rice patents, some commentators warn that India's victories are limited.²¹¹ In the case of basmati rice, the United States still regards "basmati" as a generic term and that may eventually diminish the value of India's basmati rice on the international market.²¹² Moreover, the neem tree and basmati rice incidents illustrate the larger problem facing developing countries rich in biodiversity. Without adequate protection, resources including plant varieties and traditional knowledge of the bio-rich South are under threat of exploitation from the more economically and technologically developed North.²¹³ Countries like India worry that, short of an integrated approach, such case-by-case challenges would be too costly and

207. See *India Joins Bloc*, *supra* note 9 (stating that since the basmati patent incident, India has been keen on extending TRIPS protection of geographical indications to products like basmati rice and Darjeeling tea).

208. See Rai, *supra* note 205.

209. See *id.* (reporting on events surrounding the USPTO's granting of a narrow basmati patent to RiceTec).

210. See *id.*

211. See M.D. Nair, *Winning the War against Bio-Colonisation*, HINDU, May 17, 2000 (analyzing bio-colonization in the wake of India's neem patent victory); D. Sampathkumar, *Basmati: The Threat Still Lingers*, BUS. LINE, Sept. 2, 2001 (observing that the basmati patent outcome was received as both an "unalloyed victory" and a "resounding defeat" in India).

212. See Sampathkumar, *supra* note 211.

213. Other biopiracy problems India experienced include patents on turmeric, jamun, brinjal, and several hundred others. See Nair, *supra* note 211.

ultimately ineffective to stop developed countries from continuing to commit biopiracy.²¹⁴

India and a few other developing countries have turned to geographical indications in seeking an integrated approach to protect their natural wealth. These countries demand extending the heightened protection under Article 23 to cover products other than wines and spirits to suit their needs.²¹⁵ They argue that extending the Article 23 protection to all geographical indications could have prevented developed countries such as the United States from exploiting the traditions and resources belonging to developing countries like India, and would also alleviate developing countries of the burden of costly individual legal battles with developed countries.²¹⁶ In that scenario, extending the Article 23 protection to all geographical indications would do more than benefit European countries. It would be an opportunity to achieve a better balance between the divergent interests in the area of intellectual property rights of developed and developing countries. However, a closer look at India's experience of the neem and basmati patents indicates that extending Article 23 protection may not be the answer to developing countries' quest for balance of power and benefits under the TRIPS Agreement.

First, India's lack of adequate domestic protection under intellectual property law was largely responsible for both the neem and the basmati incident. W.R. Grace never applied for a patent in India because, at that time, India did not grant patents for agricultural products.²¹⁷ It is also widely believed that RiceTec took out a U.S. patent on basmati only because of weak, non-existent Indian intellectual property laws and the government's philosophical attitude that natural products should not

214. *See id.* (analyzing dilemmas facing the South and advocating for an integrated approach to protection of bioresources).

215. *See India Joins Bloc, supra* note 9 (stating that by seeking extension of Article 23, India aims to ensure TRIPS as a framework that permits developed and developing countries alike to protect their geographical indications efficiently and effectively).

216. *See Nair, supra* note 211 (arguing that winning small battles at high costs will have little impact on the broader war against bio-colonization, and that an integrated strategy, including geographical indications protection under TRIPS, is the only solution).

217. Kruger, *supra* note 13, at 173-74.

be patented.²¹⁸ In reaction to the neem tree and basmati rice patents, India has strengthened its legal regime to conform to international laws on intellectual property, and its local communities have become more aware of and taken actions to protect their sovereign rights over traditional biological resources.²¹⁹ The challenge remains, however, that domestic legislation may still fail to safeguard the biodiversity rights of the people because it is not keeping up with the pace at which international trade agreements are being implemented.²²⁰

Second, although developing countries' attempts to formulate long-term strategies to prevent future biopiracy has led them to seek the protection of geographical indications, the TRIPS definition of geographic indication remains a barrier to their quest. It is debatable whether neem and basmati fall within the definition of geographical indications under TRIPS. The terms are not geographical indications per se in that they do not suggest a strong connection between a product and a particular geographical region.²²¹ In the case of basmati, its geographical origin is difficult to determine, because basmati rice is considered native to more than one region of India and Pakistan.²²² In fact, India and Pakistan disagree on what qualifies as authentic basmati.²²³

218. See *The Basmati Task for the New Government*, at <http://www.rediff.com/business/1998/mar/23rice.htm> (Mar. 23, 1998) [hereinafter *Basmati Task*] (noting that as of March 1998, India had not "bothered with getting together a geographical appellation act which could have prevented RiceTec from using the name of basmati which it claims is a generic name and not a trademark"); Rai, *supra* note 205 (stating that before the RiceTec basmati patent, "India largely ignored any claim or legal protection for growers and marketers of basmati," and therefore India's international patent appeal appeared weak).

219. See Bhutani and Kothari, *supra* note 160, at 605–11.

220. See *id.* at 612.

221. See DUTFIELD, *supra* note 199, at 88 (arguing that, unlike Darjeeling tea, basmati is not a geographical expression per se).

222. See *id.* at 87 (stating basmati rice is cultivated in areas of Northern India and Pakistan); Sampathkumar, *supra* note 211 (listing the regions in India where basmati is grown and arguing that qualifying basmati as a geographical indication "would be extending the concept ... to a level far beyond anything attempted till now").

223. See DUTFIELD, *supra* note 199, at 87. India and Pakistan both seek to protect basmati as a geographical indication. See *Farm Council: Council Sets New Fixed Tariffs for Rice*, EUR. REP., July 21, 2004, available at 2004 WLNR

Third, even if definition is not an issue, the neem tree and basmati rice would still be outside the protection mandated by the geographical indications provisions of TRIPS, because neither was afforded any kind of geographical indication protection within India.²²⁴ Under the Article 24.9 exception to national treatment, WTO members are not obligated to provide protection for geographical indications not recognized in their own country of origin. Therefore, India would have had very weak cases for protecting the neem tree and basmati rice as TRIPS geographical indications, and even under the Article 23 absolute protection standard, success would have been unlikely.²²⁵

Fourth, even assuming that the TRIPS provisions for protecting geographical indications apply, developing countries such as India have not demonstrated any unique need, compared with developed countries such as the EU members, for extending the heightened level of protection of Article 23 to all geographical indications. Countries opposing the extension argue that there is no evidence suggesting that the current level of protection provided by Article 22 for general geographical indications is inadequate for either developed or developing countries.²²⁶ To the extent that the protection afforded to geographical indications under Article 22 is not absolute, the fact that India has been successful in challenging the neem tree and basmati rice

7275569 (both “India and Pakistan will push for basmati to be recognised as a geographical indication at WTO level”).

224. See DUTFIELD, *supra* note 199, at 88 (stating that India would only have a case for protecting basmati rice as a geographical indication after appropriate national legislation is in place first).

225. See *id.* (arguing that for India to have a strong case for protecting basmati as a geographical indication, India first needs to have appropriate domestic legislation in place). *But see* Basmati Task, *supra* note 218 (stating that despite the lack of Indian domestic law protecting basmati rice as a geographical indication, India’s “geographically indicated rights” have long been protected in other nations such as the UK and Saudi Arabia).

226. Alejandro Jara, Ambassador of Chile to the WTO, and David Spencer, Ambassador of Australia to the WTO, recently argued that “[t]here is no evidence to show the need for a higher level of protection, nor have authoritative empirical studies shown that there would be additional economic benefits for developing countries.” Alejandro Jara & David Spencer, *No Evidence Yet That Developing Countries Need More Protection for Geographical Names*, FIN. TIMES (USA), July 7, 2004, at 12. See also Kruger, *supra* note 13, at 198 (considering and rebutting developing countries’ arguments for extending Article 23 to all products).

patents suggests that alternative means are available for developing countries to defend their intellectual property rights (even where the developing country's domestic protection is weak). That in turn makes for a weak argument for a leap in the direction of absolute protection of all geographical indications.

Finally, a higher level of protection for geographical indications may not be the proper forum to address developing countries' ultimate goal to achieve a balance in the North-South dichotomy and safeguard their traditional knowledge and biodiversity. Although some scholars argue that geographical indication may be particularly well suited for the protection of traditional knowledge, because it recognizes communal, rather than individual ownership of rights,²²⁷ the current TRIPS geographical indications provisions cover only tangible goods, and may very well exclude services, knowledge or skills.²²⁸ More importantly, the protection of biodiversity and traditional knowledge encompass complex issues such as political, social and cultural realities of different countries.²²⁹ While a full discussion on biodiversity and traditional knowledge is beyond the scope of this Note, TRIPS as a trade forum may not necessarily be the best venue for resolving these issues.

V. CONCLUSION

The TRIPS agreement provides a platform for the international protection of geographical indications at an unprecedented level.²³⁰ To truly realize the TRIPS multilateral protection of geographical indications, WTO member countries need to engage in further negotiations in order to implement existing provisions, as well as addressing particular concerns of various members. It should be stressed, however, that TRIPS recognizes and protects intellectual property rights within the framework of international trade. Therefore, member countries

227. See, e.g., Downes, *supra* note 172, at 271–72.

228. Conrad, *supra* note 11, at 33–34 (discussing that the TRIPS definition of geographical indication appears to exclude tradition, craftsmanship and services).

229. See Downes, *supra* note 172, at 266–67 (arguing biodiversity and traditional knowledge involves complex ethical and socioeconomic issues).

230. Conrad, *supra* note 11, at 45.

without significant interest in geographical indications are unlikely to agree to increase the current level of protection without obtaining meaningful concessions from countries demanding additional protections in return.

While the WTO should be sensitive to the unique concerns of developing countries, extending Article 23 to protect all geographical indications may not necessarily be the cure for the North-South gap in the area of intellectual property rights. Lack of domestic protection for geographical indications often may bar developing countries from claiming protection under the relevant TRIPS provisions altogether. Moreover, protecting the biodiversity and traditional knowledge of developing countries involves complex political, social, and economic undertakings that may be best dealt with through venues other than international trade.

The WTO is at a crossroads. While the debate over geographical indication may not “weather the high seas and stormy conditions of global trade,”²³¹ the issue nonetheless significantly divides member countries as the WTO struggles to move forward. Rather than pushing the outer limits of geographical indications and creating new gridlocks, member countries would be better served by preserving TRIPS’ groundbreaking multilateral framework and working with TRIPS’ current minimum standard of protection for geographical indications. To that end, the desire of some member countries for additional protection should be addressed through bilateral agreements which may be unfeasible on a multilateral level, but which could supplement TRIPS’ multilateral approach and strengthen its implementation.

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231. Chen, *supra* note 169, at 58.

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