Decide whose law applies

The EU has set out rules for determining whose law applies to contractual conflicts. **Aurélia Marie** explains how they should be applied to cross-border IP disputes

As we all know, the world of intellectual property is international. As lawyers we have to deal with international issues on a daily basis due to rights existing in foreign countries, contracts involving parties of different nationalities or infringement actions that must be launched overseas.

It is therefore crucial that we know which country's law will apply to any issue. In Europe, clear rules exist for identifying the governing law and establishing where any litigation will take place. These are set out in a series of EC regulations adopted within the EU to increase legal certainty between member states.

The law governing IP contracts

The Rome I Regulation, dated June 17 2008, applies to contractual obligations and replaces the Rome Convention of June 19 1980. It will enter into force on December 17 2009 and will apply to contracts signed after this date. It will apply directly in all EU member states except Denmark, which did not agree to the adoption of the Regulation. For Denmark, the Rome Convention will remain in force. (The UK was not originally due to participate in the Rome 1 Regulation, but agreed to do so following a public consultation.)

This Regulation will apply in situations involving a conflict of laws in civil and commercial matters for contractual obligations between member states. When these contractual obligations are not concluded between member states, then the existing international conventions or rules governing conflict of laws will apply.

The preamble to the Rome 1 Regulation states that the Regulation is an important way to improve the predictability of the outcome of litigation, the certainty as to the law applicable and the free movement of judgments to ensure the proper functioning of the internal market.

It goes on to say that it is therefore important that the rules governing conflict of laws in member states designate the same national law irrespective of the court in which the action would be introduced.

Rome I covers many aspects of contractual obligations and many fields of law such as carriage of goods, consumer contracts and insurance. As far as IP is concerned, there are two important points to be considered.

First, the principle provided by the regulation is the freedom of the parties to choose the law which will apply to their contract. Second, the Regulation sets out rules to determine the law applicable to the contract in situations where the parties did not state a choice.

Freedom of choice

The parties have, according to the Regulation, freedom to choose which law they want to govern their agreement. This is provided in article 3 of the Regulation, entitled "Freedom of choice". The choice of the law to apply to the contract can be express or can derive from the terms of their contract or from the circumstances. In the latter case, however, it shall be clearly demonstrated by these terms or circumstances.

However, any discussions which took place between the parties before the signature of the contract are not covered by the Regulation and therefore by the law chosen, except if specifically provided.

The parties can choose one or several laws applicable to the all of the contract or to different parts of it (article 3.1). They can also change the law which was provided for in the contract when they want to (article 3.2).

The Regulation also says that the parties can integrate into the contract laws which are not state laws, or international conventions. That means, for example,

One-minute read

A series of conventions and European regulations (Rome I, Rome II and Brussels I) set out how the parties to a cross-border dispute in the EU should decide which law applies to their contract and which court should handle the proceedings. But as the author explains, a number of factors make the rules difficult to decipher. These include the relationship between the different regulations and conventions, the fact that not all member states are signed up to all of them, and questions about the treatment of intellectual property in general and IP licences in particular under the rules.

The article provides a guide to understanding the rules and using them to determine which law applies. But, as Aurélia Marie concludes, despite the existence of formal rules, the parties to a contract should always anticipate litigation and clarify how they want any dispute to be resolved within the contract itself.

that the parties can refer to the Community Regulations for Designs and Trade Marks.

Overriding choice

In some circumstances, the choice of law made by the parties may sometimes be set aside. This is the case when there are local rules of public order or overriding mandatory provisions which cannot be derogated from. In that situation, these national rules of public order will apply. They will also apply when these rules of public order are European Community ones (see below for more details).

Article 9 of the regulation gives a definition to what is to be considered "overriding mandatory provisions": these provisions are those which are regarded as crucial by a country for safeguarding its public interest, such as its political, social or economic organisation, to such an extent that they will apply irrespective of the law applicable to the contract (which may deal with matters including tax, antitrust law or the rules relating to the validity of an IP right).

Europe sets the rules

The first step towards certainty about the application of law was the EU's adoption of a series of international conventions. The first of these was the Brussels Convention on jurisdiction and the enforcement of judgments in civil and commercial matters. The Rome Convention on the law applicable to contractual obligations was then opened for signatures on June 19 1980.

However, to enter into force, these conventions not only needed to be signed but also to be ratified nationally by each signatory state – a process that could be very slow. For the Rome Convention, for example, seven ratifications were necessary before it could enter into force, a process which took 11 years.

These conventions were afterwards treated as EC Regulations, which have direct effect in member states. A third regulation on the law applicable to non-contractual obligations, known as Rome II, was adopted on July 11 2007.

These regulations have an important impact on IP disputes and IP users and their advisers must understand how to use them.

Determining consent

Another important issue is the law that will be applicable for analysing the validity of the consent given by the parties. Article 10 of the Regulation provides that the designated law of the contract will apply. However, the Regulation also makes it clear that a party that wants to establish that he did not consent may rely on the law of his habitual residence if it appears that the application of the law of the contract would not be reasonable.

When there is no agreement

When the parties did not choose their law for their contract, the Regulation provides two kinds of rules. First, for some contracts mentioned in article 4.1, the Regulation provides specific rules.

Some of these contracts may find application in IP. For example, this is the case for contracts for the sale of goods. The law applicable is then the law of the vendor. It is unclear whether this rule will apply for the sale of a trade mark or of a patent. Case law should give the answer in the future.

Franchise contracts are governed by the law of country of the habitual residence of the franchisee. We all know the importance of trade marks in such contracts.

Distribution contracts are governed by the law of the country where the distributor has his habitual residence.

Regarding contracts for provision of services, the Regulation also provides a specific rule in cases of conflict. However, a recent decision by the European Court of Justice (ECJ) held that licence contracts dealing with IP rights in the field of author rights was not a contract for the provision of services on the grounds that provision of services means that there is an activity provided against payment and granting a licence against payment cannot be considered as being an activity of providing services.

If the contract is not one of those mentioned in article 4.1 or is a mixed contract, then article 4.2 provides a general rule of conflict for the law to be applicable to the contract.

This law will be the law of the country where the party who provides the main performance has his habitual residence. However, article 4.3 gives a general limit to this rule when the contract is obviously linked with one specific country. This means that when the characteristic performance of the contract is to be made in one country, then the law of the country of this characteristic performance will apply in that case.

This could be, for example, the case for the assignment of a local IP right in one country. In this situation, one can expect that the local law of that country should apply even if the parties have residence in other countries if there is no other provision in the contract to be performed by the parties.

Finally, when the law cannot be determined under these two rules, the applicable law will be the one which is the most closely connected to the contract.

Deciphering the rules

This body of rules appears to be a little complex and may be difficult to implement. At the moment, legal advisers cannot say with certainty which rules of conflict shall apply to IP contracts. In addition, the rule provided by article 4.3, which relies on the characteristic performance of the contract, gives additional uncertainty. The notion of characteristic performance is indeed quite vague and in some IP contracts there can be many performances given by the parties, such as, for example, in research and development contracts for patents. Consequently, identifying the characteristic performance in such contracts may be very difficult.

The additional rule of the law of the country most connected with the contract may also be difficult to determine.

All these elements of uncertainty create dangers for the parties. This is because contracts are designed to remove uncertainty as to the possible sanctions that may be applied if either party commits a breach.

For this reason we highly recommended that the parties to a contract expressly choose the law of the contract when their agreement has any international element. Only then will the parties be sure that they know the rules of the game.

The impact of Rome II

The second Regulation adopted by the EU is the Rome II Regulation (Rome II). This was adopted after four years of discussions and concerns the law applicable to non-contractual obligations. It entered into force on January 11 2009 and is applicable to events giving rise to damages which occurred after that date. Rome II supersedes existing international conventions between member states.

The Regulation also provides a specific rule of conflict for infringement of intellectual property rights.

This rule is provided by article 8 of Rome II. In some cases, the parties may agree to submit non-contractual obligations to

the law of their choice, but this is not allowed in cases infringement of IP rights.

According to this rule then, the law applicable in the case of infringement of a national right is the law of the country where the protection is claimed. When the right is a Community one, the rule will designate the law of the country in which the infringing act was committed.

It is to be noted that Rome II does not deal specifically with infringement committed through the internet. We must wait and see how the ECJ interprets Rome II in such cases.

The Brussels I Regulation

Finally, a last regulation, Brussels I, sets out the rules determining where any litigation must be filed. Brussels I deals with jurisdiction and the recognition and enforcement of judgments in civil and commercial matters. It came into force on March 1 2002 in all member states except Denmark.

The general rule provided by Article 2 of Brussels I is that a person domiciled in a member state shall, whatever his nationality is, be sued in the courts of that member state.

However, specific rules are also provided, notably in contractual matters or non-contractual matters (such as tort, delict and quasi-delict).

For contractual matters, the rule provided by Brussels I is the place of performance of the obligation.

In the case of sale of goods, this is the place where the goods were delivered or should have been delivered. For services, this is the place where the services were provided or should have been provided. However, as previously mentioned, this rule does not apply in the case of disputes over licences.

For non-contractual matters, the rule provided by Brussels I is the place where the harmful event occurred or may occur.

These specific rules are optional to the general rule of the domicile of the defendant.

We can see that these rules differ to those provided by Rome I and Rome II. In Rome I, the rule was that when the law was not chosen by the parties, then the law that should be applied is the law of the country where the party due to carry out the main performance of the contract has his habitual residence, except when the contract has specific link with a different country. For non-contractual matters, the law to be applied is the law of the country where the protection is claimed. The rules for determining the competent court are different again.

Because of this complex set of rules, the parties should try to decide not only on the law to apply to their agreement, but also on the court that has competence to try it, wherever possible.

Towards harmonisation?

EU member states have tried to harmonise their rules and create a uniformed body of rules to deal with conflict of law and conflict of jurisdictions. However, these rules – taken together – are not easy to understand or to use. In addition, as far as IP matters are concerned, uncertainties still remain.

In fact, we can see that these uncertainties relate to the treatment of IP under these rules and whether IP provisions are to be considered as different from other fields of the law.

It is now to decide on whether IP provisions should benefit from specific rules or whether they should be treated as other goods or services.

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