

TMPDF

Trade Marks Patents and Designs Federation

Comments on draft Regulation (COM 2003 427 Final) on the law applicable to non-contractual obligations (“Rome II”)

Executive Summary

1. In its present form, the draft Regulation is not acceptable in so far as it applies to IP and certain other types of disputes because it is insufficiently clear and to the extent that there is clarity, the principles laid down are overly complex.
2. Although it may be possible to revise the draft to clarify and simplify its principles in a manner that would be acceptable (and we have suggested some possible ways of doing so), this would require further significant effort and consultation.
3. We therefore recommend excluding IP disputes and certain other disputes from the scope of the Regulation altogether

Is Rome II needed at all and should it include intellectual property (“IP) within its scope?

4. In May 2002, the Commission published its consultation on a preliminary draft proposal for what has become the draft of “Rome II”. Some organisations, for example, UNICE and the CBI, suggested there was a need to demonstrate why a Regulation of the nature of Rome II was needed at all. For example, UNICE commented:

“UNICE regrets that the preliminary draft proposal does not contain any indication as to the reasons why the Commission sees a need for the Rome II Regulation, or why it proposes to choose one solution as opposed to another for determining the law applicable to non-contractual obligations.

5. Regrettably, the Commission has still not justified the need for legislation at all. Sections 2.1-2.3 of the Explanatory Memorandum are far from such a justification. It is by no means clear that there is a problem in practice; far less is it clear that any problem will be solved by this Regulation.
6. Indeed, as far as disputes concerning IP are concerned, the Commission accepts (see discussion of Article 8 in the Explanatory Memorandum) that two approaches were considered in relation to IP; excluding IP altogether or subjecting it to a special rule. The latter approach is that “finally adopted” by the Commission without any explanation whatsoever for adoption of this approach or any discussion of the advantages and disadvantages of each approach.
7. The Commission has not identified any problem that exists specific to disputes concerning IP and certain other types of dispute mentioned below which requires legislative intervention. TMPDF members, many of whom have wide experience in litigating IP disputes in many countries within and outside the Community, do not experience significant difficulty in determining which law applies to a specific dispute on a case by

case basis. TMPDF members consider that the proposed legislation will make matters more uncertain and complex than they are now. Therefore, irrespective of the general issue of whether there is a need for a Regulation such as that proposed at all, we consider that such a Regulation should not cover IP unless both of the following conditions are clearly demonstrated:

- a The drafting of the Regulation is such as to make its meaning as clear as possible
- b The meaning is not only sufficiently clear but is also appropriate to all types of IP disputes.

Is the draft Regulation sufficiently clear as to what principles apply to different types of IP dispute?

8. Article 8(1) governs actions for infringement of national “intellectual property rights” which are defined in Recital 14. The definition appears not to include certain matters which might be regarded as IP rights and, as we shall see, this is significant. Article 8(2) governs actions for infringement of unitary “industrial” property rights
9. Article 8(1) states that the applicable law shall be that of the country “for which the protection is sought” Although the meaning of these words is unclear (most UK practitioners would use these words to describe a country in which an application for registration of an IP right is in the process of being made), it appears from the Explanatory Memorandum that the meaning is the country where the right which is alleged to have been infringed subsists. In most (if not all) cases, the effect of this principle in practice would be that the applicable law should be that of the country where the alleged infringement takes place. If that is the intended meaning, it appears sensible; however, it must be properly expressed
10. It is not only important to clarify the principle which determines the law which is to apply, but also to clarify to what rights it applies. As noted above, Recital 14 assists in many respects.
11. However, it is not clear how actions for breach of confidence fall to be dealt with under the draft Regulation. It is very difficult indeed to know which Article (or Articles) would apply to such actions. Article 6 would appear to apply to claims concerning material of a personal nature which might fall to be dealt with under the law of confidence in the UK but under privacy law elsewhere in Europe. Article 5(2) appears from the Explanatory Memorandum to apply to many claims of a commercial nature (although how it applies is not clear – see below). Article 9 would appear to apply to other claims for breach of confidence of a commercial nature which derive from, for example, an existing or previous relationship (including a contract, whether of employment or otherwise, and perhaps claims for breach of fiduciary duties owed by, for example, company officers.) It is by no means clear where the distinction between claims which are to be dealt with under Article 5 and those to be dealt with under Article 9 lies and there is therefore uncertainty as to which rules will apply.

Are the principles applicable to IP disputes laid out in the draft Regulation appropriate?

12. If it is not felt appropriate to exclude IP from the scope of the Regulation altogether, and if our assumption that Article 8(1) means that the law to be applied is the law of the country where the right subsists, that is probably a sensible rule as far as unregistered statutory rights (principally copyright, related rights, rights in designs and database rights) are concerned.
13. It is also probably a sensible principle to apply to registered rights such as patents, registered designs and registered trade marks. However, there is a real problem with applying this principle to such registered rights, which arises not from this proposal but from the Brussels Convention and Regulation. In disputes concerning registered rights, the validity of the right concerned is often (and, at least in the case of patents, usually) a significant issue and one which is inextricably linked to the issue of infringement. By virtue of the Brussels Convention and Regulation, the validity of registered rights is an issue under the exclusive jurisdiction of the Courts of the country of registration. The effect and appropriateness of this principle, particularly in the field of patents, has long been the question of debate between courts and commentators in Member States, although to date it has not been considered by the Court of Justice. Article 8(1) would require, for example, a French Court seized with an issue relating to infringement of a UK patent to determine issues relating to the validity of that patent. This is not appropriate; such issues must be left to the UK courts.
14. For this reason, we urge that the opportunity that has arisen in considering this proposal be used to revisit the manner in which the Brussels Convention and Regulation applies to national registered rights. It is clearly appropriate that only the Courts of the country of registration should have jurisdiction to consider the validity of these rights. Where, as in these circumstances, validity and infringement are inextricably linked, it is equally inappropriate that a Court of another country should have the power to determine infringement. We therefore suggest that, in cases involving claims of infringement of a national registered right, only the Courts of the country of registration should have jurisdiction to hear the case. Whilst we recognise that this will mean that such rights have to be litigated on a national, rather than pan-national, basis, that is the inevitable consequence of a system which permits national registered rights.
15. Turning now to passing off disputes, it appears that Article 5 is intended to apply but it is obscurely drafted.¹ Assume that a French mineral water company commits an act in the UK which is alleged by another French company, to be passing off and the Defendant is sued in France (its domicile). This appears to be an example of the type mentioned in the 4th paragraph of page 16 of the Explanatory Memorandum. That passage appears to imply that Article 5(1) would apply. However, it is not clear how it would apply; would the law of France or the UK apply? The most sensible law to apply to acts committed in the UK would be UK law. The meaning of Article 5(1) needs to be clarified so that it is apparent what law will apply in a given situation.

¹ In this regard, we note that the phrase “collective interests of consumers” in Article 5(1) is referred to in the Explanatory Memorandum (page 15 final paragraph) as being “rather vague”. We suggest that when those drafting the legislation refer to a phrase that is used as “rather vague”, either there is something wrong or there should be strong justification for use of a “rather vague” term.

16. We would have thought that the obscurity of Article 5(1) could be removed by providing that for most acts of unfair competition (and certainly for passing off, but see the next paragraph for breach of confidence), the applicable law should be that of the country where the act complained of took place.
17. Matters become even more difficult when one tries to assess whether the rules which apply to a breach of confidence case are appropriate. As already noted, for trade secrets type disputes either Article 5(2) (according to the Explanatory Memorandum) or Article 9 might apply. If Article 5(2) applies, one has to analyse which of Article 3(2) or (3) will apply. However, how these Articles would apply is unclear, as is how Article 5(2) interacts with Article 9. Article 9 itself is so complex that it is almost impossible to identify in advance what law will apply to what types of dispute, particularly given subparagraphs 5 and 6. We therefore submit that even if it is felt that the Regulation needs to deal with issues such as unfair competition, breach of confidence claims of a commercial (as opposed to private nature) should be excluded if significant clarification of the principles is not achieved.
18. These are not questions of merely academic interest. Because they are questions which impact on the law relating to the liability of businesses, they are questions which affect business on a daily basis. Business needs legal certainty to the extent that it is possible to provide it in relation to issues and problems that can be foreseen at the time of proposed legislation. The proposed Regulation is not sufficiently clear on these issues to be acceptable and must be clarified. It is no answer to these concerns to say that these are issues which will, in due course, be clarified by the Court of Justice. When concerns are raised as to the lack of clarity of proposals during the legislative process, all steps possible should be taken to ensure that the proposed legislation is clarified.
19. In its current form, the meaning of the proposal and how it will apply is sufficiently unclear as to make it unsatisfactory.

15th March 2004