



Advancing Industry's View On Intellectual Property Since 1920

Hague Conference on Private International Law - Special Commission on Jurisdiction Recognition and Enforcement of Foreign Judgements in Civil and Commercial Matters -

Draft Convention on Exclusive Choice of Court Agreements (May 2004)

Drafting Committee Proposal: Work Doc No.110 (Revised)

TMPDF¹ Response to Consultation by Department of Constitutional Affairs (DCA) of 28 October 2004

General

1. In principle, we welcome the work being done on this Convention. A convention that achieves international recognition and enforcement of court decisions in *inter-partes* actions in the intellectual property field, when the opposing parties have previously agreed between themselves on the court where litigation between them should take place, will be of considerable value to UK businesses active in, or affected by the activities of others, in more than one country.
2. It is important that the Convention should be as clear as possible, since it will affect the commercial interests and enforcement of private rights of businesses internationally. Lack of clarity in conventions similar to this one (e.g., the Brussels Convention) has resulted in the past in very complex litigation. In the case of the Brussels Convention (now a regulation), there is an ultimate arbiter, the ECJ, to provide uniform interpretation when uncertainty arises. In the case of this Convention, there will be no such arbiter.
3. If the objectives of the Convention are to be achieved, that there should be as much international uniformity in its application as possible, which can only be achieved by as much clarity as possible. We discuss important points concerning clarity below, but we have focussed only on particular parts of the draft. Others may identify other areas of uncertainty; indeed some are mentioned in the draft report of 26 August 2004 by Mssrs. Dogauchi and Hartley (hereinafter referred to as the D/H report).

Main points

International enforcement

4. In our view, the essential consideration in determining whether a judgement given in proceedings between two parties should be recognised and enforced internationally (as under the Convention) is that the parties have, prior to any dispute between them, reached an exclusive choice of court agreement. Thus we see no particular reason for the Convention to apply only when there is an international aspect to the relationship between the parties. If, where the parties have agreed an exclusive choice of court clause, one party to a dispute needs the judgement to be recognised and enforced elsewhere than in his home state, then

Fifth Floor, 63-66 Hatton Garden, London EC1N 8LE
Tel: 020 7242 3923 Fax: 020 7242 3924
admin@tmpdf.org.uk www.tmpdf.org.uk

that should be allowed under the Convention, even when both parties are resident in that state and other elements relevant to the dispute (whatever these are) are connected only with that state.

5. For example, assume that in a contractual dispute as to payment under a supply contract which contains an exclusive choice of court clause in favour of the courts of country A and both parties are resident in and all elements of the dispute relate to country A, damages are awarded in favour of the claimant. Assume that the defendant has insufficient assets in country A to satisfy the award. We see no reason why enforcement under the Convention should not be permitted in country B where the defendant has assets.
6. The D/H report says, in paragraph 13, that Article 1.3 of the draft Convention (which provides that for the purposes of chapter III, a case is international where recognition or enforcement of a foreign judgement is sought) means that “a case that was not international when the original judgement was granted becomes international if it is recognised or enforced in another contracting state”.
7. The result suggested in the D/H report appears to accord with the principle set out in paragraph 4 above. However, it does not seem to follow clearly from the Convention as presently drafted. A natural reading of the Convention, including Article 9.1, suggests that a court requested by one of the parties to enforce a foreign judgement in accordance with the Convention (i.e., to treat the case as international under Article 1.3) would expect the foreign judgement to have been given in relation to a dispute governed by the Convention when it was heard, i.e., that the provisions of Article 1.2 concerning the international character of the dispute had been complied with.
8. We therefore consider that the draft Convention should be adjusted, in Article 1 paragraphs 2 and 3 and/or elsewhere, to ensure that the result suggested in paragraph 13 of the D/H report is clearly produced.

Exclusive choice of court agreements

9. While we endorse the requirement that the agreement between the parties on the chosen court should exclude, or be taken to exclude, non-chosen courts, so as to fall within the scope of the convention, we see no strong reason for the choice of court to be restricted to only one contracting state. For example, we are aware of an agreement under which each party must take any action in the courts of the state of the other party. There seems no reason to exclude such an agreement from the scope of the convention, and indeed the D/H report, in paragraph 72, comes close to suggesting that it should be permissible. The wording of article 3 should be adjusted.

Possibility for the parties to agree that the Convention does not apply

10. Importantly, we consider that any contractual agreement between the parties that the convention should not apply should be recognised as valid, i.e., a decision of a chosen court would not be recognised and enforced internationally where that is the agreement between the parties. This is seen as a possible safeguard for a company faced with a take it or leave it offer as regards a license agreement containing a choice of court, as a whole. If the company is not entirely happy with the choice of court, it might possibly at least secure agreement that judgements of the court would not be internationally enforced.

Intellectual property exclusion

11. We see no reason for excluding intellectual property matters, such as decisions in infringement actions, from the scope of the convention except in proceedings pursuant to a license or assignment contract. If the parties have established a choice of court agreement between themselves covering intellectual property matters, such as where infringement questions will be litigated, then the convention should apply. This would mean that article 2.2(k) should be omitted. This would be subject to providing that the decisions to be

recognised and enforced must be strictly between the parties. It should not be possible for a challenge to validity in an *inter-partes* action subject to a choice of court agreement to result in the invalidation of the right *vis a vis* third parties or its cancellation from the register. Incorporation of such a principle would allow for full judicial proceedings to have similar effects to arbitration proceedings.

Copyright and related rights

12. We consider that copyright and related rights should be treated in the same way as other intellectual property rights under the convention.

Incidental questions

13. We agree generally with the treatment of so called "incidental" questions ("preliminary" questions might be better terminology), i.e., that decisions on matters such as validity or infringement that must be resolved before deciding on the cause of action, such as whether license terms have been breached, cannot be enforced in themselves under the convention, but that the resulting decision on the cause of action will be. Thus we accept the provisions of articles 2.3 and 10.1. However, we are concerned that, unless there is some definition of "incidental", different meanings could be attributed to it by the Courts of different countries.

Suspension of proceedings

14. As regards the option for the chosen court to suspend proceedings if a competent court in the state where the intellectual property right arose is considering the underlying intellectual property (article 6), we consider that the chosen court should be able to do this only if the action in the state where the intellectual property right arose is instigated by an independent third party. It should not be permissible for the parties to a contract dispute before the chosen court (i.e., the parties to the agreement) to bring actions elsewhere in order to delay or confuse matters. (This would not prevent an action, e.g., on validity, being brought elsewhere - however, the existence of this action should not be a reason to delay a judgement on the contract dispute.)

15. Furthermore we are concerned about the very general way in which Article 6 is drafted. It should be made much more specific than it is now, perhaps by deleting the words "in particular".

No retrospection

16. Finally, we consider that it should be clear that the convention will not have retrospective effect - i.e., it should only apply to those choice of court agreements that have been drawn up in the knowledge that it applies to them.

DCA Questions

1. The extent to which the agreement should cover intellectual property rights.

As noted above, we see no reason to exclude intellectual property rights from the convention, provided that the decisions reached in connection with them are effective only as strictly between the parties. *Inter-partes* decisions on validity should not for example lead to the cancellation of rights from registers or to invalidating the rights *vis a vis* independent third parties. Thus article 2(2)(k) could be deleted, provided that the *inter-partes* nature of the decisions reached by chosen courts, with no general consequence for the validity of the intellectual property right concerned, is provided for.

Furthermore, we consider that **all** intellectual property rights should be treated in the same way under the convention. Thus if rights other than copyright and related rights continue to be excluded, then so should copyright and related rights

2. Is it sufficient for the convention to speak of copyright “and related rights”, or should related rights be defined?

Since we do not consider that copyright and related rights should be treated differently from other intellectual property rights, there is no need to define “related rights”. If despite our view, such rights are eventually treated differently, then we still do not see a need to define “related rights”, on the basis that it is generally accepted that these will be performers’ rights, rights in sound recordings, and broadcasting rights.

3. Is the phrase “proceedings pursuant to a contract which licenses or assigns IP rights” sufficient to cover distribution contracts, joint venture agreements and agency agreements?

We consider that such contracts and agreements should be covered and that the identified phrase does not make this fully clear. It may be that a “definition” provision is needed to clarify any references to intellectual property license contracts. However, the phrase presently forms part of article 2.2(k), which we consider should be omitted.

4. Does it need to be made clear that the convention applies to all litigation covering the scope of an IP license, whether brought under contract or tort?

This may need to be made clear, but we have doubts as to whether the wording “including infringement of the right to which the contract relates” actually achieves this.

In any event, this question is moot if, as we suggest, article 2.2(k) is omitted.

5. While validity is not within the convention’s scope, the chosen court will deal with an invalidity defence as a necessary step towards giving judgement on a claim. Does article 2(2) (k) satisfactorily implement this policy? Or should the proposal in the explanatory report be considered?

As already noted, we do not think that article 2.2(k) should be included, although we do consider that wording is needed to emphasise the inter-partes nature of any decisions concerning intellectual property.

In any event, we doubt that the proposal in the explanatory report makes the position any more clear. Indeed paragraph b) could be taken to exclude validity even when decided as a preliminary matter. It needs to be made clear that rulings on invalidity apply only as between the parties and should not lead to the cancellation of rights from registers or be regarded as definitive in relation to other independent parties.

6. Stay of proceedings.

We share the DCA concern that the provision might facilitate time wasting and cause confusion. However, we do consider that courts should be able to suspend proceedings where the intellectual property right is under challenge in a court in the state where it arose, when the action there is brought by an independent third party (i.e. not a party to the exclusive choice of court agreement).

7. Obligation of court not chosen (article 7).

We agree that exceptions to the obligation of a court not chosen to refrain from hearing the case should be drawn as tightly as possible.

As regards the third exception, article 7(c), covering serious injustice and breach of public policy in the state of the court seised, we agree with the DCA that the alternative suggestion, that under the mandatory rules of the court seised, the parties were unable to agree to exclude this jurisdiction, is too vague. As regards the fourth exception, article 7(d), covering exceptional

reasons preventing the reasonable performance of the agreement, we agree that this might be omitted, provided that the wording of 7(c) clearly includes it - on the basis that if the agreement "cannot reasonably be performed" (art7 (d)), then giving effect to it would "lead to a very serious injustice" (art 7(c)).

8. Incidental questions.

We are not convinced that articles 10(2) and 10(3) are necessary provisions. It might be argued that where parties have agreed to submit to the jurisdiction of a court that is not in the state where the right exists, they should accept that they will be bound, internationally, by its rulings. Article 10(3) in particular, which would enable an enforcing court to postpone or refuse enforcement if proceedings on validity are pending, offers considerable scope for time wasting and confusion.

9. Judgement in contravention of a choice of court agreement.

We agree with the principle of article 11, which aims to ensure that such a judgement will not be recognised and enforced. However, we consider that the variant texts in the explanatory report are much clearer than the existing article 11.

Variant 1 seems the more logical, in that it requires the enforcing court to consider whether the non chosen court acted consistently with article 7, although we accept that it might be difficult for the court to do this.

10. Excessive damages.

We do not have a position on this issue.

11. Limitations on scope as regards specific subject matters.

We consider that the scope for states to opt out of particular subject matters should be as small as possible.

TMPDF

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¹ TMPDF represents the views of UK industry in matters concerning intellectual property. It has close links with the CBI. Its members include many of the major innovative UK companies, which are represented at meetings of the governing Council and Committees of the Federation by their professional IP managers. Before the Federation takes a position on any issue, official consultation documents and other relevant papers are submitted to the members for debate and dialogue. An appropriate Committee and/or the Council, depending on the issue, then determines the position, taking account of comments.

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