

## Recognition and Enforcement of Foreign Judgments

<b>Document</b>	Background document of May 2018
<b>Title</b>	Treatment of Intellectual Property-Related Judgments under the November 2017 draft Convention
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<b>Agenda item</b>	
<b>Mandate(s)</b>	
<b>Objective</b>	To facilitate consultation and discussion on intellectual property-related matters under the November 2017 draft Convention  <b>Please note that this Paper will <u>not</u> be discussed at the May 2018 Special Commission meeting.</b>
<b>Action to be taken</b>	For Approval <input type="checkbox"/> For Decision <input type="checkbox"/> For Information <input checked="" type="checkbox"/>
<b>Annexes</b>	Annex: Extract from the Explanatory Report on the 2005 Hague Convention on Choice of Court Agreements by Professors Trevor Hartley and Masato Dogauchi
<b>Related documents</b>	

## A Introduction<sup>1</sup>

1. Since 1992, the Hague Conference on Private International Law (hereinafter, "Hague Conference") has undertaken work in the fields of jurisdiction, and recognition and enforcement of foreign judgments (hereinafter, the "Judgments Project"). The initial phase of the Project resulted in the conclusion of the *Convention of 30 June 2005 on Choice of Court Agreements* (hereinafter, the "2005 Choice of Court Convention"). The second phase of the Judgments Project, which eventually led in August 2013 to the decision to develop a new Convention on the recognition and enforcement of foreign judgments in civil or commercial matters (hereinafter, the "Judgments Convention"), has now reached the negotiation stage at the international level: a Special Commission which, based on preparatory work carried out by a Working Group, met three times in June 2016, February and November 2017 respectively, and produced several drafts of the Convention.<sup>2</sup> The November 2017 draft Convention, derived from the third meeting, will form the basis of the discussion for this Paper (hereinafter, the "draft Convention").<sup>3</sup>

2. Intellectual property (hereinafter, "IP") rights are an important economic factor, so a secure legal framework for cross-border cases is of the essence. Even though IP rights as such are territorial, *i.e.*, the existence of an IP right and the prerogatives afforded to the right-holder are limited to the territory of the State granting such a right, there are many cross-border situations which might require the recognition or enforcement of an IP-related judgment in another State. Thus, issues pertaining to IP matters have always been an important subject of discussion at the Working Group and Special Commission meetings. With the aim of advancing the discussions, the Permanent Bureau (hereinafter, the "PB") facilitated intersessional work on IP-related matters for the preparation of the Second Meeting of the Special Commission,<sup>4</sup> and the European Union (hereinafter, the "EU") prepared a Discussion Document on the operation of the future Hague Judgments Convention with regard to Intellectual Property Rights (hereinafter, the "EU Discussion Document on IP") which was based on the February 2017 draft Convention.<sup>5</sup>

3. At its Third Meeting, the Special Commission further discussed the treatment of judgments on IP matters, both in the plenary and in a separate informal working group, and considered the desirability of a wide range of approaches, including:

- whether IP should be excluded from the scope of the November 2017 draft Convention and, if so, how such an exclusion should be framed; and
- whether IP should be included within the scope of the November 2017 draft Convention and, if so, to what extent and how provisions in relation to the circulation of judgments on IP matters and appropriate safeguards should be framed.<sup>6</sup>

4. Due to the complexity of the subject matter and diverging views expressed, Members of the Hague Conference considered that a wider range of consultation on IP matters was needed and, on the basis of the consultation, that IP matters be further discussed at a Diplomatic Session. To this end, the Special Commission decided to include both alternatives, *i.e.*, provisions reflecting the possible inclusion or exclusion of IP matters (Arts 2(1)(m), 5(3), 6(a), 7(1)(g), 8(3) and 11) in the November 2017 draft Convention, with square brackets to indicate

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<sup>1</sup> This Paper is intended to facilitate consultation on intellectual property related issues for the preparations for the Diplomatic Session, to be held in mid-2019. With the exception of decisions of competent authorities in relation to the validity of IP rights, IP-related issues will **not** be discussed at the Fourth Meeting of the Special Commission on the Recognition and Enforcement of Judgments to be held from 24 to 29 May 2018.

<sup>2</sup> More information on the Judgments Project is available on the Hague Conference website < [www.hcch.net](http://www.hcch.net) > under "Judgments".

<sup>3</sup> The authors would like to express their gratitude to the European Union for its contribution to this Paper.

<sup>4</sup> "Report on Intersessional Work on Intellectual Property Related Matters", prepared by the Permanent Bureau, Info. Doc. No 6 of January 2017 for the attention of the Second Meeting of the Special Commission of February 2017 on the Recognition and Enforcement of Foreign Judgments (16-24 February 2017). The document is available on the Hague Conference website < [www.hcch.net](http://www.hcch.net) > under "Members & Parties" then "Secure Portal" and "Special Commission Meetings" then "Special Commission on the Judgments Project".

<sup>5</sup> Info. Doc. No 10 Revised of December 2017. The document is available on the Hague Conference website < [www.hcch.net](http://www.hcch.net) > under "Judgments" then "Special Commission on the Judgments Project".

<sup>6</sup> *Aide memoire* of the Chair of the Special Commission of 13-17 November 2017, para. 19. The *Aide Memoire* is available on the Hague Conference website (see path indicated in note 4).

that no agreement was reached and that there is a need for further consultation and reflection. In addition, further sets of square brackets were placed within the bracketed parts of the text to indicate specific issues requiring more attention.

5. In line with the above, this Paper, which uses the EU Discussion Document on IP as a basis, explains the envisaged operation of the November 2017 draft Convention in general and its impact on IP litigation if IP-related judgments were to be included or excluded from the draft Convention. Thus, it begins with a general description of how the draft Convention will operate (Section B), followed by the explanation of the operation of the two alternative approaches under the draft Convention, assisted with examples (Sections C and D). Further valuable IP-specific background can be found in the comments on an earlier version of the preliminary draft Convention which were submitted by the WIPO Secretariat in Working Document No 77.<sup>7</sup>

## **B General overview: the operation of the draft Convention**

6. The future Judgments Convention is a private international law instrument in civil or commercial matters. Among the three areas of private international law, however, it only covers one aspect, namely the recognition and enforcement of foreign judgments (Art. 1(2)).<sup>8</sup> This means that States joining the Convention would remain free to establish and apply their own rules – in their internal law or in other bilateral or multilateral instruments including regional ones – with regard to jurisdiction to adjudicate disputes in civil or commercial matters (including IP issues), *i.e.*, determining which State's courts are competent to deal with a particular case, including cases having factual connections to more than one State, and with regard to the law to be applied to those cases.

**Example 1:** An example from the IP world would be a situation where a right-owner lives in State X and owns an IP right (*e.g.*, a registered trademark) which enjoys protection under the law of State Y. The right-owner now wants to sue the defendant who lives in State Z for damages because of an alleged infringement of this trademark which occurred on the territory of State Y. Regardless of whether the plaintiff sues the defendant in State X, Y or Z, and even if IP-related matters are included in the Judgments Convention, it would not be for the Judgments Convention to regulate whether the national courts of any of these States would have international jurisdiction. This question would be decided by the internal law of, or any regional or international instrument in force in, the State of the court seised. Likewise, it would be for the court seised to decide either under its own internal law or, where applicable, under any bilateral or multilateral instrument in force in that State, which substantive law is applicable to the infringement dispute.<sup>9</sup> And as long as the resulting judgment is enforced only in the State where it was given, the Judgments Convention would not come into play. The Judgments Convention would, however, become operational as soon as a question of cross-border recognition or enforcement of the judgment arises, provided that IP-related matters are covered by the Convention.

7. The draft Convention applies to judgments relating to civil or commercial matters; it does not extend, in particular, to revenue, customs or administrative matters (Art. 1), and a list of subject matters laid down in Article 2(1). As stated in Section A, the current draft Convention contains the option of excluding “intellectual property [and analogous matters]” from the scope of the draft Convention (see *infra*, Section C).

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<sup>7</sup> Work. Doc. No 77 of September 2016, “Comments by the Secretariat of the World Intellectual Property Organization (WIPO) on the 2016 Preliminary Draft Convention of the Recognition and Enforcement of Foreign Judgments”, for the attention of the Second Meeting of the Special Commission on the Recognition and Enforcement of Foreign Judgments (16-24 February 2017). The document is available on the Hague Conference website (see path indicated in note 5).

<sup>8</sup> The two other areas of private international law in the larger sense are jurisdiction to adjudicate (*i.e.*, rules determining the courts of which State are competent to decide a particular private law case which has connections to several States), and the determination of the law applicable to the merits of a dispute (sometimes also referred to as private international law in the narrow sense, or as conflict of laws).

<sup>9</sup> Generally speaking, the prevailing conflict-of-laws rule in the area of IP states that in infringement cases, the law of the State for which protection is claimed (*lex loci protectionis*) will apply. In this example, this would mean that the courts of States X, Y and Z are all likely to apply the law of State Y to the infringement claim, provided that States X and Z would assume jurisdiction under their internal law.

8. Article 4 lays down the principle of mutual recognition and enforcement of judgments among the Contracting States, according to which a judgment given by a court of a Contracting State (hereinafter, the “State of origin”) shall be recognised and enforced in another Contracting State (hereinafter, the “requested State”) in accordance with the provisions of Chapter II of the Convention.

9. Article 5 (Bases for recognition and enforcement) is the core provision to be applied by the courts of the requested State when faced with an application for the recognition or enforcement of a judgment in civil or commercial matters given in another Contracting State. It stipulates eligible bases (or “jurisdictional filters”) against which the judgment from the State of origin is to be assessed by the requested State. If one of the jurisdictional bases required by Article 5 is met, the judgment will in principle be entitled to recognition or enforcement under the Convention. These grounds are limited by the exclusive jurisdictional bases listed in Article 6. Where a judgment meets the requirements of Articles 4, 5 and – where applicable – 6, the only grounds for refusal to recognise or enforce it are provided in Articles 7 and 10. Article 7 establishes an exhaustive list of grounds for refusal that allow, but do not require,<sup>10</sup> the requested State to refuse recognition and enforcement. It is useful to point out that Article 16 reserves the right of a requested State to recognise or enforce a foreign judgment based on national law as long as the rules set out in Article 6 are respected.

### **C Operation of IP provisions under the draft Convention (option for the exclusion of IP-related judgments)**

10. The November 2017 draft Convention contains an option for the exclusion of IP-related judgments from scope. Article 2(1)(m) states the scope of the exclusion – intellectual property [and analogous matters].

11. The scope of the exclusion was discussed at length at the November 2017 meeting of the Special Commission. There was a proposal to include a detailed but non-exhaustive list of excluded litigation concerning IP matters, while there were also preferences of having an open clause without detailing specific types of IP matters. In particular, the discussion focused on how to exclude IP rights that are not universally recognised. A solution was then found to use the term “analogous matters”, which captures a broad range of issues that are considered IP rights according to certain national laws, but not so under other national laws, such as traditional knowledge, genetic resources and traditional cultural expressions. The term “analogous matters” was put into square brackets for further consultation as there were still discussions as to what would be covered by the term, whether it should be further defined, or whether it is the best description for what it is intended to achieve. It should be noted that a similar term, “analogous right”, is included in Article 5(3).<sup>11</sup>

12. If IP-related judgments were **to be excluded** from the draft Convention, whether and how such judgments should be recognised and enforced will only be determined by the national law of each State or by other bilateral or multilateral instruments concluded by the States with regard to recognition and enforcement. Nevertheless, the draft Convention will still play a role in relation to the application of Article 8(3). As discussed in Section D.5, judgments which rule on contractual disputes are covered by the draft Convention, including those dealing with IP licensing or transfer. In such disputes, the invalidity of IP rights requiring grant or registration could be raised as a defence (and thus as a preliminary question), and in this context, Article 8(3) will become relevant for the court addressed to determine whether to recognise or enforce the judgment on the contractual dispute.<sup>12</sup>

### **D Operation of IP provisions under the draft Convention (option for the inclusion of IP-related judgments)**

13. If IP-related judgments were **to be included** within the draft Convention,<sup>13</sup> the jurisdictional filters in Articles 5(3) and 6(a) would be particularly relevant. The safeguards set

<sup>10</sup> Contracting States are free, however, to establish in their implementing legislation for the Convention that their courts are bound to refuse recognition and enforcement if one of the grounds for refusal listed in Art. 7 is met.

<sup>11</sup> See *infra*, para. 32.

<sup>12</sup> For more information, see *infra*, paras 52-55 and the example.

<sup>13</sup> *I.e.*, assuming that the exclusion of IP-related judgments from the scope of the Convention, as currently regulated (or listed or mentioned) in Art. 2(1)(m) of the draft Convention, is not adopted.

out in Articles 7(1)(g) and 8, and a limitation introduced in Article 11, limiting the scope of the draft Convention to "monetary remedies in IP matters", will require attention. As some General and Final Clauses would also play a role if IP were included, discussing these provisions is also useful.

14. As many rules of the draft Convention are rather technical, their operation will be further illustrated below with some examples. Before doing so, it is worth looking at the types of judgments which might fall within the scope of the draft Convention if IP litigation were to be covered without excluding any particular type of proceedings or IP rights.

### **1. Types of IP-related judgments concerned**

15. The types of judgments at issue concern in particular the following categories:

- 1) judgments on the validity of an IP right required to be granted or registered;
- 2) judgments on the validity of unregistered trademarks or unregistered industrial designs;
- 3) judgments on the ownership or subsistence of copyright or related rights;
- 4) judgments declaring the (non-)infringement of an IP right;
- 5) judgments awarding damages for the infringement of an IP right;
- 6) injunctions (on the merits) to cease and desist from a certain behaviour infringing an IP right.

16. Litigation concerning a license contract will be qualified as contractual (and thus not "IP-related") in the sense used in this Paper, where it concerns the scope and performance of obligations arising out of the license contract. However, where the invalidity of the IP right is raised as a defence by the licensee and the court has to rule on the (in)validity of the right as a preliminary question, this will trigger the application of the IP-related rules explained in this Paper, in particular Article 8(3).

#### **a. Courts and IP offices**

17. In this context, firstly it is important to note that the November 2017 draft Convention only applies to judgments given by "courts". On this approach, decisions given by intellectual property offices – and even by Boards of Appeal which might have been established within these offices – would not be recognised and enforced under the Convention. These decisions may, however, be taken into account by the court addressed if they are inconsistent with a ruling made by the court of origin in leading to its final judgment. More specifically, if in the proceedings in the State of origin on issues other than the validity as such, the (in)validity of the IP right concerned was raised as a defence, *i.e.*, a "preliminary question" under the draft Convention, and the ruling on the preliminary question by the court of origin was inconsistent with a decision of a competent authority given in the State where the IP right required to be granted or registered, then the recognition and enforcement of a judgment under the draft Convention can be challenged under Article 8(3). This will be explained in further detail below.

18. However, during the November 2017 Special Commission meeting, a concern was raised that there may be legal systems where only IP offices can rule on the validity of IP rights, not courts. There was a call for discussion on extending the scope of the Convention to the decisions made by IP offices in relation to the validity of IP rights. The Special Commission noted the importance of this issue – as it would be asymmetrical if decisions on the validity of IP rights given in some systems could be recognised (because given by courts), whereas those given in others could not (because given by IP offices) – and decided to organise intersessional work to address whether, and if so how, to deal with decisions of competent authorities in relation to the validity of IP rights, also in the context of Article 8(3) of the draft Convention. This issue will be the subject of further consideration at the May 2018 meeting of the Special Commission.

#### **b. Interim relief**

19. The Judgments Convention does not apply to interim relief, interlocutory rulings and any orders in support of the proceedings on the merits. As the definition of "judgment" in Article 3(1)(b) clearly states, "judgments" are only decisions on the merits, and "an interim measure of protection is not a judgment". While interim relief is very important to ensure the protection of right-holders and IP rights, and while it would undoubtedly enhance IP

enforcement to be able to obtain such provisional protection in one forum and have it recognised and enforced in others, the Working Group and subsequently the Special Commission considered that the types of interim relief, and the conditions under which it can be obtained, differ significantly between States and may raise additional concerns on due process and the protection of the rights of the defendant, so that these measures should not circulate across borders under the Convention. They should rather be obtained in the various States concerned separately, for each IP right in question, or recognised and enforced under national law.

## 2. IP rights concerned

20. The draft Convention distinguishes between IP rights required to be granted or registered (see Arts 5(3)(a) and 6(a)), and IP rights which do not require registration. As specifically stated in the draft Convention (Art. 5(3)(b) and (c)), the types of “unregistered” IP rights covered are copyright and related rights, unregistered trademarks, and unregistered industrial designs. Other types of “unregistered” IP rights are not covered by the draft Convention.

### a. IP rights required to be granted or registered

21. Articles 5(3)(a) and 6(a) contain an open clause referring to IP rights required to be granted or registered. This includes for example, patents, registered trademarks, registered industrial designs,<sup>14</sup> granted plant breeders' rights (also known as plant variety rights),<sup>15</sup> registered or listed geographical indications, supplementary protection certificates extending the term of protection of a patent,<sup>16</sup> utility models (petty patents), etc. The use of an open clause makes it possible to include any future IP rights required to be granted or registered.

### b. IP rights not required to be registered or granted

22. Article 5(3)(b) and (c), which both deal with IP rights not required to be registered, use a different approach. The unregistered IP rights that are covered by the Convention are explicitly stated in sub-paragraphs (b) and (c), in other words, they provide a closed list. The list includes only the following well-recognised “unregistered” IP rights: copyright and related rights, unregistered trademarks, and unregistered industrial designs, and in such a way, excludes other types of unregistered IP rights which might exist under the laws of Contracting States now and in the future. The reason for having a closed list is that different national laws may provide for different unregistered rights, and new unregistered rights may emerge in the future. In the absence of mandatory registration or other similar act of State, preceded by some examination or opposition procedures, it may be very difficult for the requested State to see – *e.g.*, from a money judgment – whether a certain type of IP right actually exists under the laws of other Contracting States, and problems might arise in particular if the IP right in question is not known under the law of the requested State. For example, views are divided on the question of whether trade secrets (*i.e.*, undisclosed business information) are “IP *rights*”. While the TRIPS Agreement defines “intellectual property” in Article 1, it does not define what an IP *right* is. A closed list of some universally recognised unregistered IP rights would provide greater transparency and foreseeability to litigants as concerns the applicability of the filters in Article 5(3)(b) and (c).<sup>17</sup>

<sup>14</sup> The term “industrial design” is used in the Paris Convention for the Protection of Industrial Property, of 20 March 1883, as revised at Brussels on 14 December 1900, at Washington on 2 June 1911, at The Hague on 6 November 1925, at London on 2 June 1934, at Lisbon on 31 October 1958, and at Stockholm on 14 July 1967, and as amended on 28 September 1979 (Arts 4 and 5 *quinquies*); and in the Agreement on Trade-Related Aspects of Intellectual Property Rights of the World Trade Organization (WTO) (1994) (hereinafter, the “TRIPS Agreement”) (Arts 25 and 26).

<sup>15</sup> The protection of plant breeders' rights is envisaged in the TRIPS Agreement, either by patents, by an effective *sui generis* system or by a combination thereof, see Art. 27(3)(b). Most countries have introduced a plant variety protection system under the *International Convention for the Protection of New Varieties of Plants* of 2 December 1961, as revised at Geneva on 10 November 1972, on 23 October 1978, and on 19 March 1991.

<sup>16</sup> “Supplementary protection certificates”, which are protected under EU law and in the European Economic Area, are *sui generis* IP rights that serve as an extension to a patent after the patent's term of protection has expired in order to compensate for the time for obtaining any authorisation to bring the product to market. In other jurisdictions, similar results are achieved under the “patent extension” or the “patent restoration” which would also be included.

<sup>17</sup> Note: it is the *co-Rapporteurs'* and PB's understanding that the draft Convention applies when those “intangible rights” are protected under other rules, *i.e.*, not as IP rights, *e.g.*, by general rules on unfair competition or unjust enrichment. This however requires clarification from the Special Commission.

### c. Unitary IP rights

23. Most IP rights are territorial to individual States. Within the EU, however, there are also a number of so-called unitary IP rights, which grant protection for the entire territory of the Union. Currently, these rights are the Union trademark,<sup>18</sup> Community designs<sup>19</sup> and Community plant variety rights<sup>20</sup> – all of them required to be registered or granted. In the future these will be complemented by a European patent with unitary effect under two Regulations.<sup>21</sup> This will implement enhanced co-operation in the field of patents, potentially<sup>22</sup> covering all EU Member States except for those not participating in enhanced co-operation, *i.e.*, Croatia and Spain.<sup>23</sup> Under this regime, the unitary effect will be registered for newly granted European patents granted under the European Patent Convention (which so far are a bundle of national patents and not a unitary patent).<sup>24</sup> This possibility will extend to those participating EU Member States<sup>25</sup> for which the UPC Agreement had entered into force at the time of registration<sup>26</sup> of the unitary patent. If IP-related judgments were to be included in the Convention, the Convention will also cover these unitary IP rights.

## 3. Bases for the recognition and enforcement of IP-related judgments

### a. Article 5(3) – Bases for recognition and enforcement (IP rights)

24. Where both States concerned are Parties to the Judgments Convention, the plaintiff can apply for recognition or enforcement of a judgment under the Convention.<sup>27</sup> In order for an IP-related judgment to circulate, it should fulfil one of the specific jurisdictional filters for IP-related judgments set out in the draft Convention.

25. It should be noted that in comparison with IP jurisdictional filters laid down in earlier drafts of the Convention, the current November 2017 draft Convention adopts a separate regime tailored for IP-related judgments. Article 5(3) explicitly states that the jurisdictional filters listed in Article 5(1) do not apply to judgments that ruled on IP rights or analogous rights, and judgments which ruled on these rights are only eligible for recognition and enforcement under the Convention if one of the bases of jurisdiction established by Article 5(3) is met. As a result, general jurisdictional filters provided in Article 5(1), which used to serve as alternatives under earlier drafts of the Convention, cannot be applied to IP-related judgments anymore under the current draft.

26. In this sense, Article 5(3) establishes “exclusive” bases for jurisdiction within the draft

<sup>18</sup> Council Regulation (EC) No 207/2009 of 26 February 2009 on the Community trade mark as amended by Regulation (EU) 2015/2424 of the European Parliament and of the Council of 16 December 2015, replaced by Regulation (EU) 2017/1001 of the European Parliament and of the Council of 14 June 2017 on the European Union trade mark (codification) on 1 October 2017.

<sup>19</sup> Council Regulation (EC) No 6/2002 of 12 December 2001 on Community designs (terminology not yet adapted to “Union”).

<sup>20</sup> *Idem.* Regulation No 2100/94 on Community plant variety rights provides for plant breeders' protection throughout the whole of the EU. However, where a Community plant variety right (CPVR) is granted in relation to a variety for which a national right or patent has already been granted, the national right or patent is rendered ineffective for the duration of the CPVR (Art. 92 of Regulation No 2100/94).

<sup>21</sup> Regulation (EU) No 1257/2012 of the European Parliament and of the Council of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection and Council Regulation (EU) No 1260/2012 of 17 December 2012 implementing enhanced cooperation in the area of the creation of unitary patent protection with regard to the applicable translation arrangements.

<sup>22</sup> Once the system becomes operational (when 13 Member States ratify the Agreement on a Unified Patent Court signed on 19 February 2013 (hereinafter, the “UPC Agreement”), the unitary patent will gradually deploy its effect in the territory of Member States having ratified the UPC Agreement after the entry into operation of the unitary patent package.

<sup>23</sup> This will be the case as soon as the related UPC Agreement enters into force for certain States.

<sup>24</sup> This will also be the case as soon as the UPC Agreement enters into force for certain States.

<sup>25</sup> But not to Albania, Iceland, Liechtenstein, Monaco, Norway, San Marino, Serbia, Switzerland, Turkey and The former Yugoslav Republic of Macedonia, which are also Parties to the European Patent Convention.

<sup>26</sup> There is a difference between the granting of the European patent and the registration of its unitary effect. Once the European patent is granted, the patent holder may request a unitary protection (unitary patent) within one month which will be registered by the European Patent Office if the formal conditions are met. See Art. 18(2), second sub-paragraph of Regulation 1257/2012.

<sup>27</sup> The Convention also allows recognition and enforcement of a foreign judgment under internal law even in relations between Contracting States, provided that the exclusive bases of jurisdiction set out in Art. 6 have been respected (Art. 16).

Convention. Judgments on IP rights are only eligible for recognition and enforcement under the draft Convention if they are given by a court of the State under the law of which the IP right is protected. As for judgments given in consolidated proceedings in multi-State intellectual property infringement disputes, the draft Convention covers only the severable part of the judgments that ruled on an infringement of the intellectual property right registered in the State of origin (if it also ruled on rights registered in other States, Art. 9 may apply). Thus, if an act infringes IP rights protected in more than one State, the judgment which ruled on the dispute will only be eligible for recognition and enforcement under the draft Convention to the extent that it ruled on an infringement of the IP right protected in the State of origin of the judgment (if it also ruled on rights protected in other States, Art. 9 may apply). It is, however, worth noting that there is a slight difference between the “exclusiveness” of Article 5(3)(a) and Article 6(a): Article 6(a) excludes the recognition and enforcement under national law, as stated in Article 16, while Article 5(3)(a) does not (for more explanation, see *infra*, para. 47).

**Example 2.** Plaintiff A sues defendant B at B’s habitual residence in State Z under Article 5(1)(a) for infringement of a trademark registered in State Y, no invalidity defence is raised and damages are awarded. If it later turns out that B owns more assets in State X where A lives, A could not have the judgment given in State Z recognised and enforced in State X under the November 2017 draft Convention (but this could be possible under the national law of State X – the Judgments Convention does not prevent that (Art. 16)). The same holds true, *e.g.*, if the jurisdiction of State Z were based on B’s consent under Article 5(1)(e) or (f).

Conversely, if A were to bring the claim in State Y, which is the State where the trademark is registered, the judgment would be eligible for recognition and enforcement under Article 5(3)(a).

27. In accordance with Article 5(3) of the November 2017 draft Convention, the following judgments would be eligible for circulation (subject to the question of “targeting”, see *infra*, paras 33-37):

- **a judgment which ruled on an infringement of an IP right required to be granted or registered**<sup>28</sup> would be entitled to recognition or enforcement pursuant to Article 5(3)(a) if the judgment were given by a court in the State in which the grant or registration of the right concerned has taken place, or under the terms of an international or regional instrument, is deemed to have taken place, and the infringement occurred in that State;<sup>29</sup>
- **a judgment which ruled on an infringement of a copyright or related right, an unregistered trademark or unregistered industrial design** would be entitled to recognition or enforcement pursuant to Article 5(3)(b) if the infringement occurred in the State of origin and the judgment was given by a court in the State for which protection was claimed;
- **a judgment which ruled on the validity [, subsistence or ownership] in the State of origin of a copyright or related right, an unregistered trademark or unregistered industrial design** would be entitled to recognition or enforcement pursuant to Article 5(3)(c) if the judgment was given by a court in the State for which protection was claimed.

**Example 3:** If A, the right-owner, brings a claim against B in State X on the validity of an unregistered trademark protected by the law of this State, the ensuing judgment would be eligible for recognition in any requested State under Article 5(3)(c). This is because the court of origin is a court of the State whose law governs the right concerned and for the territory of which protection is claimed.

28. If adopted, this new scheme for IP-related judgments would reflect a compromise

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<sup>28</sup> Where IP rights also exist in an unregistered form (as is the case for trademarks and industrial designs), Art. 5(3)(a) does not apply to judgments relating to these unregistered rights. Instead, judgments relating to the infringement or validity of an unregistered trademark or unregistered industrial design are covered by the filters in Art. 5(3)(b) or (c).

<sup>29</sup> There are further nuances to this rule which will be discussed below under Art. 6 (“deemed to”).



between different approaches to the appropriate scope of recognition and enforcement of IP judgments. Some delegations expressed that if IP rights were to be included into the scope of the Convention, they should be subject to a *strict* application of the territoriality principle, reflecting the territorial characteristics of IP rights, *i.e.*, that the existence of an IP right and the prerogatives afforded to the right-holder are limited to the territory of the State granting such a right.

29. The territoriality of these rights has a clear impact on the conflict of laws dimension. The existence and content of an IP right can only be determined by the law of the State granting it, and the same holds true for the prerogatives of the right-holder and any infringements of that right. An IP right can only be infringed in the State where it exists and is protected. Infringement of an IP right registered in State X may only occur in State X; it is conceptually impossible for infringement of an IP right registered in State X to occur in State Y. At the conflict of laws level, the territoriality principle requires the application of the *lex loci protectionis*, *i.e.*, the law of the State *for which* protection is claimed, to determine the existence, content and infringement of IP rights (for the territoriality principle in the context of online IP infringement, please see *infra*, paras 33-34).

30. The draft Convention mirrors this principle at the jurisdictional level. A judgment on IP-related matters may only circulate under the draft Convention if it was given by a court of the State under the law of which the IP right concerned was protected (*lex loci protectionis*). And this applies to both judgments on the validity of an IP right and judgments on an infringement of such right. This ensures the parallelism between jurisdiction and applicable law. From a comparative law perspective, disputes on the validity of an IP right granted by the substantive law of State X are currently only subject to the jurisdiction of the courts of such State. However, in relation to infringement, some States assume jurisdiction to hear claims about infringement of foreign IP rights and apply the foreign IP law; these judgments would not circulate under the draft Convention, while a judgment given by the State that granted the IP right would circulate. Thus, in principle, the State of origin of the judgment which is eligible for recognition and enforcement under the draft Convention will coincide with the *lex loci protectionis*, *i.e.*, the State under the law of which the IP right exists and is protected. This solution responds to the concern of several delegations with regard to the application of the bases of jurisdiction established in Article 5(1) to IP matters under earlier drafts of the Convention, such as habitual residence of the defendant, branch jurisdiction or jurisdiction based on the principal place of business, which also allowed for a consolidation of litigation relating to IP rights protected under the law of other States. The application of that paragraph would entail the recognition and enforcement of judgments under the draft Convention in cases where the court of origin would have to apply a foreign law. As legal and technical aspects of IP rights are closely intertwined in litigation, those delegations' concern was that the court of origin might apply either its own law also to the foreign IP rights, or apply a foreign law wrongly. The guarantee that the State of origin of the judgment applied the "proper law" is further strengthened by Article 7(1)(g), which allows States to refuse recognition and enforcement if a different law was applied.<sup>30</sup>

31. The current draft also differs from earlier drafts in terms of the scope of the IP rights covered. The *chapeau* of Article 5(3) refers to IP rights or analogous rights. Those terms include (i) IP rights that are universally recognised based on the TRIPS Agreement or WTO membership; and also (ii) others that are not universally recognised but only so under some national systems, such as traditional knowledge or traditional cultural expressions. All judgments ruling on these rights are excluded from the scope of application of Article 5(1). Conversely, in Article 5(3)(a), (b) and (c) the bases for jurisdiction on IP rights are laid down as a semi-closed list: they only include all IP rights required to be granted or registered (sub-para. (a)), and from among the unregistered rights, only copyright and related rights, unregistered trademarks and unregistered industrial designs (sub-paras (b) and (c)). The consequence of this difference between the open exclusion of the *chapeau* and the closed list of the three sub-paragraphs is that judgments on IP rights and analogous rights that are not covered by Article 5(3)(a), (b) and (c) do not circulate under the draft Convention.

32. The term "analogous rights" also requires attention. If the term is to be included, the judgments on rights that are not protected as IP but as an analogous right under some national systems would also be subject to Article 5(3) and, as a result of the above scope analysis, would be excluded from the draft Convention. If the term "analogous rights" were not included in

<sup>30</sup> The application of Art. 7(1)(g) is illustrated below in Section D.4 with examples.

Article 5(3) the judgment would potentially still be eligible for recognition and enforcement under Article 5(1). This also raises the question of how “analogous rights” should be interpreted: should they be interpreted by the court addressed according to the law of the requested State or should they be interpreted autonomously? In addition, it should be noted that using “analogous rights” rather than “analogous matters”, as in Article 2(1)(m), indicates that contractual issues regarding IP rights are not included within the scope of Article 5(3) but would be subject to the filters in Article 5(1) where applicable.

- **IP infringement in the online environment**

33. In today's online world, the infringement of IP rights through the Internet has become frequent. Indeed, because of the territoriality of IP rights, a certain trademark or design may be owned by person A for the territory of State X, and by person B for the territory of State Y. However, both may wish to use the trademark on their respective websites which are accessible from around the world. A might claim that B is infringing his trademark protected in State X, on the alleged ground that B's website, using the trademark owned by B for State Y, can also be accessed from State X.

34. The enforcement of IP rights in cases of alleged IP infringements committed in the online environment therefore requires some adaptation to the traditional territoriality principle due to the ubiquity of the Internet in order to protect defendants (alleged infringers) from being hauled into a court in a State where allegedly the injury arose in situations where this could not have been foreseen by them.

35. For this reason, both Article 5(3)(a) and (b), which deal with the infringement of IP rights, contain some words in square brackets at the end: [, unless the defendant has not acted in that State to initiate or further the infringement, or their activity cannot reasonably be seen as having been targeted at that State]. The square-bracketed text functions as an exception to the eligibility criteria: *i.e.*, even if the judgment were given in the State of registration, it would not be eligible for recognition or enforcement if the defendant has not acted in the State of origin of the judgment to initiate or further the infringement, or if his activity cannot reasonably be seen as having been targeted at that State.

36. The text reflects a solution which has been suggested in soft law elaborated by several international expert groups from around the world, *inter alia* in the so-called CLIP Principles,<sup>31</sup> the ALI Principles<sup>32</sup> and the Waseda Global COE proposal.<sup>33</sup> As explained by Professor Annette

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<sup>31</sup> Principles on Conflict of Laws in Intellectual Property, elaborated by the European Max-Planck-Group on Conflict of Laws in Intellectual Property (CLIP), 1 December 2011, Principle 2:202 - Infringement:

In disputes concerned with infringement of an intellectual property right, a person may be sued in the courts of the State where the alleged infringement occurs or may occur, unless the alleged infringer has not acted in that State to initiate or further the infringement and her/his activity cannot reasonably be seen as having been directed to that State.

<sup>32</sup> Intellectual Property: Principles Governing Jurisdiction, Choice of Law, and Judgments in Transnational Disputes, elaborated by the American Law Institute, 2008:

§ 204. Infringement Activity by a Defendant Not Resident in the Forum

(1) A person may be sued in any State in which that person has substantially acted, or taken substantial preparatory acts, to initiate or to further an alleged infringement. The court's jurisdiction extends to claims respecting all injuries arising out of the conduct within the State that initiates or furthers the alleged infringement, wherever the injuries occur.

(2) A person may be sued in any State in which that person's activities give rise to an infringement claim, if that person directed those activities to that State. The court's jurisdiction extends to claims respecting injuries occurring in that State. (...)

<sup>33</sup> Principles of Private International Law on Intellectual Property Rights (Joint Proposal Drafted by Members of the Private International Law Association of Korea and Japan) (Waseda University Global COE Project) of 14 October 2010:

Article 203 - Infringement

(1) In case of infringement of an intellectual property right, a person may be sued in the courts of any state where the alleged infringement occurs. Provided that the injuries thereof occur in multiple states, regardless of the sequence of those injuries, the person whose infringement activities give rise to those injuries may be sued in the courts of the state in which the major part of his or her activities that initiate the alleged infringement. The court's international judicial jurisdiction extends to claims with respect to all the injuries arising out of that activity or those activities within the state that initiates the alleged infringement, wherever the injuries occur.

Kur, a member of the CLIP Group, the proposed CLIP provision:<sup>34</sup>

"ensures that a person is not amenable to proceedings in a State where the alleged infringement occurs by way of "overspill", for instance if a trademark is displayed on the Internet and can thus be seen world-wide, without the message having been sent from, or being directed to, another State or States where the same or a similar mark exists. The rule is inspired by the WIPO Recommendation on the Protection of Trademarks, and Other Industrial Property Rights in Signs, on the Internet. Similar rules are also contained in the proposals made in the other projects."

37. Applied to the example above, this would have the following effect:

**Example 4:** If the defendant B only uses his trademark which was registered for State Y on his website operated from there, the website is in a language which is not spoken in State X for which the plaintiff A owns an identical trademark, B does not sell his products to customers in State X, and the phone number indicated on B's website is not given with an international code, a judgment given against him in State X for the infringement of A's trademark protected by the law of State X would not be entitled to recognition in State Y under Article 5(3)(a) if the words in square brackets were included. Without those words, the judgment would be entitled to recognition. In both cases it would be for the substantive law of State X to actually decide whether the defendant's actions did infringe the plaintiff's trademark protected in State X.

**b. Article 5(1)(g) – Additional basis for recognition and enforcement (IP contracts)**

38. This provision provides a basis for recognition and enforcement of judgments ruling on contractual obligations, and is therefore relevant to judgments which ruled on IP-related contractual disputes, such as IP licensing contracts or IP transfer contracts.<sup>35</sup> As stated in the provision, a judgment ruling on a contractual obligation is eligible for recognition and enforcement under the draft Convention if it was given in the State of performance of that particular obligation. For example, if the licensor files a claim for non-payment of royalties due under a trademark licensing contract, the resulting judgment would be eligible for recognition and enforcement under Article 5(1)(g) if it were given by a court of the Contracting State where the payment was due.

39. The draft Convention envisages two distinct possibilities regarding the identification of the place of performance of contractual obligations. The first situation arises where the terms of the contract specify the place of performance of the obligation in question. Thus, a judgment rendered by a court of the Contracting State where that place is located will be considered to satisfy the filter in Article 5(1)(g)(i). This is the case irrespective of whether performance actually took place in that location or not. In other words, the parties' agreement as to the place of performance is determinative. In practice, it is very common that the place of performance be included among the general contractual terms and conditions of one of the parties (or both of them).

40. The second situation arises where there is no agreement on the place of performance; in other words, the contract is silent as to that subject. The same holds true if the agreement on the place of performance is not valid. In both cases, the place of performance will have to be identified pursuant to the law governing the contract. The draft Convention does not specify how that law is to be identified and therefore this determination is left to the law of the requested State, including its rules of private international law.

**Example 5:** A brings a claim against B in State X. The basis of the claim is the payment of royalties to A. If A and B have agreed in their contract that the place of payment is in State X, then the ensuing judgment will be entitled to recognition and enforcement under

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(2) Where an alleged infringement of an intellectual property right is directed against a particular state, the court of that state may have international judicial jurisdiction over only those claims with respect to injuries occurring in that state.

<sup>34</sup> A. Kur, "The CLIP Principles – Summary of the Project", *The quarterly review of corporation law and society* 12 (2011), 202-215.

<sup>35</sup> It should be noted that other alternative bases under Art. 5(1) can be applied to judgments ruling on contractual obligations, *i.e.*, Art. 5(1)(a)-(g), (l) and (m).

Article 5(1)(g).

However, if the parties did not designate the place of payment in their contract, then the judgment will be recognised and enforced under Article 5(1)(g) if in accordance with the law governing the contract, the place of payment was in State X. The law of the requested State, including its private international law rules, will determine which law governs that contract. If the place of payment designated by the governing law of the contract was in State Z, the judgment will not be eligible for recognition or enforcement under Article 5(1)(g). However, it may still be entitled to recognition and enforcement if it fulfils other alternative filters laid down in Article 5, *e.g.*, Article 5(1)(a), B's habitual residence in State X, or Article 5(1)(e), if B consented to the jurisdiction of the court of origin in State X.

41. It should be noted that Article 5(1)(g) provides a safeguard allowing the defendant to resist recognition or enforcement of a judgment rendered in the State of the place of performance on the basis that the defendant's activities in relation to the transaction clearly did not constitute a purposeful and substantial connection to that State. The formulation of this condition imposes the burden of proof on the defendant ("unless") and a high threshold ("clearly did not constitute").<sup>36</sup> The purpose of introducing this safeguard is to provide fairness to the defendant in the situation where the place of performance designated by the parties or the law applicable may be arbitrary, random or insufficiently related to the transaction between the parties, or in the situation where the designated place of performance has a merely virtual, and thus insufficient, connection with the State of origin, *e.g.*, in the case of an envisaged online performance.

### c. Article 6 – Exclusive bases for recognition and enforcement

42. Article 6 is another specific safeguard for IP-related judgments. It contains a special rule in sub-paragraph (a), excluding the application of all filters set out in Article 5(3) for judgments on the [registration or] validity of IP rights required to be granted or registered. A judgment that ruled on the [registration or] validity of an IP right required to be granted or registered shall be recognised and enforced **if and only if** the State of origin is the State in which the grant or registration has taken place. This special rule was introduced because the [registration or] validity of IP rights required to be granted or registered is subject to the exclusive jurisdiction of the State of registration under practically all national laws and international instruments, and the Judgments Convention aims at ensuring and strengthening this rule.

43. Article 6(a) also covers judgments from a Contracting State where the IP right required to be granted or registered is **deemed to** have taken place under the terms of an international or regional instrument. This rule takes account of rules established by several international and supranational instruments. As explained by WIPO in Working Document No 77:

"18. According to the *Explanatory Note* (paragraph 155), this provision takes into account registered rights derived from international or regional instruments, and include[s] (1) instruments that facilitate the grant of (national) rights in multiple States through one (international) registration; and (2) instruments that grant unitary, "supranational" rights through one registration.

19. The former type of instruments include the WIPO-administered PCT, Madrid, Hague and Lisbon Systems;<sup>13</sup> and regional instruments such as the Harare Protocol on Patents and Industrial Designs, the Banjul Protocol on Marks and Arusha Protocol for the Protection of New Varieties of Plants administered by the African Regional Industrial Property Organization (ARIPO).<sup>14</sup> Under these instruments, "a court in the State in which the [deposit or] registration of the right [...] is deemed to have taken place under the terms of an international or regional instrument" [...] will typically be the court in the State for the territory of which protection is granted and not the court in the State in

<sup>36</sup> For more about this condition, see R.A. Brand and C.M. Mariottini, "Note on the concept of 'Purposeful and Substantial Connection' in Article 5(1)(g) and 5(1)(n)(ii) of the February 2017 draft Convention", Prel. Doc. No 6 of September 2017 for the attention of the Third Meeting of the Special Commission on the Recognition and Enforcement of Foreign Judgments (13-17 November 2017). The document is available on the Hague Conference website (see path indicated in note 5).

which the registration of the right concerned or the filing of the application in question has taken place.

20. The latter type of instruments include those governing the European Union (EU) trademarks, Community design rights and Community plant variety rights;<sup>15</sup> as well as the Bangui Agreement administered by the African Intellectual Property Organization (OAPI).<sup>16</sup> Under these instruments which provide for a single registration with effect in multiple States, the place of registration (or the place of the administering authority) may not be the key factor in defining the territorial boundaries of protection."

44. In other words, the international or regional instruments which either facilitate the grant of a bundle of national rights in multiple States through one international registration (*e.g.*, the European bundle patent under the European Patent Convention), or provide for unitary supranational rights through one registration, normally contain rules determining where the respective right is "deemed to" be granted or registered, and this determination is accepted by the draft Convention as decisive.

45. It should be noted that the words "registration or" were placed in square brackets, as discussions on the need to mention both "registration" and "validity" are ongoing. As explained at the Special Commission meetings, both terms can occur in tandem in some other instruments, so they are closely related though not the same thing, whereas other experts thought that "validity" subsumed "registration".

46. In addition, it should be noted that, although not specifically mentioned, the current provision also covers preliminary steps that lead to the grant or registration of the right, for example, an act of "deposit", which is a prerequisite under some legal systems for the acquisition of certain types of IP rights.<sup>37</sup> The same holds true for Article 5(3)(a).

47. As briefly mentioned in paragraph 26 of this Paper, Article 6(a) differs from Article 5(3) in terms of the "exclusiveness" of the respective jurisdictional filters. Both provisions deal with IP rights required to be granted or registered: Article 5(3)(a) refers to the judgments ruling on the *infringement* of these rights; whereas Article 6(a) refers to judgments ruling on their [registration or] validity. Although the connecting factor for both provisions is the same – the State of origin is the State in which grant or registration has taken place, or, under the terms of an international or regional instrument, is deemed to have taken place – the main difference is that, as stated in Article 16, Article 6(a) excludes the possibility of recognition or enforcement under national law for judgments not given in the State where the right was granted, while Article 5(3)(a) does not.

**Example 6:** A brings a claim against B in State X, alleging infringement of a patent granted in State Y. The ensuing judgment will not be eligible for recognition and enforcement under Article 5(3)(a) as the court of origin is not a court of the State in which the patent was granted. But the judgment may still be recognised or enforced under the national law of the requested State.

In contrast, if the dispute is about the validity of the patent (as the object of the proceedings, not as a preliminary question), the ensuing judgment from State X will not be eligible for recognition and enforcement under Article 6(a) as the court of origin is not a court of the State in which the patent was granted, nor can it be recognised or enforced under the national law of the requested State.

#### 4. Article 7 – Refusal of recognition or enforcement

48. In accordance with Article 4(1), recognition or enforcement of a judgment which is eligible for such recognition or enforcement on the basis of Article 5 or 6 may be refused only on the

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<sup>37</sup> There exist, if not in great number, IP systems where the concerned IP right, typically an industrial design right, is acquired through an act of "deposit". In these systems, the deposit *will/may* subsequently be recorded in a public register, but the relevant act providing legal effect will remain the "deposit". [Note from the authors: We are not sure whether a "deposit" is always followed by a record in a register, thus we have kept the option *will/may*. This should be clarified in the final version of the Explanatory Report if IP-related matters are eventually included within the scope of the Convention].

grounds specified in the Judgments Convention itself. These grounds are listed in Article 7.<sup>38</sup> Most of them are general in nature and apply to all judgments, including IP-related judgments. Article 7(1)(g), however, is a specific IP-related ground for refusal, which can be applied if the judgment ruled on an infringement of an IP right and the court of origin applied to that right / infringement a law other than the internal law of the State of origin. The purpose of this ground for refusal is to safeguard the territoriality principle, and in particular the application of the *lex loci protectionis* by the courts of the State of origin. It was introduced in the February 2017 draft Convention which still allowed for the recognition and enforcement of judgments ruling on an infringement of an IP right which were given in a State other than the State under whose law protection was claimed. For example, in cases where litigation concerning multi-State infringement of identical trademarks protected under the law of several States had been consolidated in the State of the defendant's habitual residence, the court hearing the case should have applied the different trademark laws of the States concerned to the respective parts of its decision. If it did not do so, under the February 2017 draft Convention, Article 7(1)(g) was supposed to provide a ground for refusal of recognition and enforcement of the relevant parts of the judgment. In spite of this rule, however, concerns remained among stakeholders with regard to cases where the court applied the proper law, but applied it wrongly. This eventually led to the restriction of the IP-related filters in Article 5(3) of the November 2017 draft Convention, according to which the recognition and enforcement of judgments resulting from multi-State infringement litigation consolidated in one single forum is no longer possible. Now only IP-related judgments issued by the Contracting State under whose law the IP right is protected may circulate under the draft Convention. Based on the above, and with the consideration that it can naturally be assumed that that court will apply its own law, there was discussion at the November 2017 Special Commission meeting as to whether there would still be a need to keep Article 7(1)(g). As yet, no consensus has been reached on this issue.

49. This provision only applies to judgments on the infringement of IP rights. The square brackets around "right / infringement" relate to the two different choice-of-law rules applied to these two issues in copyright cases in some jurisdictions. In copyright infringement cases, the *lex loci protectionis* is the choice of law rule under most States' laws. Some States, however, apply the *lex originis* (the law of the State of origin of the right, *i.e.*, the State where the work was first published) to the question of initial ownership; each choice of law rules may lead to the application of different national laws. Having regard to this difference, the Special Commission saw the need for reflection. The core concern of choosing "right" or "infringement" lies at the law applicable to the copyright initial ownership issue. If the court of the State of origin of the judgment applies the *lex loci protectionis* to this issue (and to the infringement dispute), that is its own law, then the judgment could circulate under the draft Convention regardless which term is chosen. However, if the court of the State of origin of the judgment applies the *lex originis* to the initial ownership issue, *i.e.*, the law of the State where the book was first published, which is not its own law, and if the term "right" is chosen in Article 7(1)(g), the judgment could be refused for recognition and enforcement under Article 7(1)(g), even if the infringement dispute is decided by the *lex loci protectionis*. In contrast, if "infringement" is chosen here, no matter which law was applied to the initial ownership issue, (even if it was a law different from the law of the State of origin of the judgment), the judgment could circulate under the draft Convention if it was adjudicated according to the law of the State of origin of the judgment, based on the application of the *lex loci protectionis* to the infringement. It is a policy decision as to which term should be preferred.

50. It should be mentioned here that the term "the internal law" of the State of origin is used in order to clarify that the law applied to the IP right / infringement should be the substantive law of the State of origin; the application of its choice-of-law rules by the court of origin would indeed trigger the refusal of recognition or enforcement if these rules refer to the substantive law of other States.

## 5. Article 8 – Preliminary questions

51. Article 8 contains another safeguard rule for judgments in general and a specific rule relating to IP rights which allows refusing recognition or enforcement of a judgment in certain cases. In the February 2017 draft Convention the provision was mainly relevant for IP infringement litigation where the invalidity of the IP right was raised as a defence before a court

<sup>38</sup> Subject to certain further safeguards, in particular in the area of IP, which are contained in Art. 8, as will be discussed below.

outside the State under whose law the right was granted or otherwise protected. Due to the new, territoriality-based approach to infringement litigation as reflected in Article 5(3)(a) of the November 2017 draft Convention, the number of situations where Article 8(3) will apply will be drastically reduced because judgments given in IP infringement cases are only eligible for recognition and enforcement under the Convention if they were given in the Contracting State where the right was granted or otherwise protected.

52. However, in IP contractual disputes, *e.g.*, IP licensing or transfer contracts, the invalidity of the IP right may also be raised as a preliminary question, which may plead in favour of retaining the IP-related rules in Article 8, in particular paragraph 3. In other words, the court of origin, before deciding whether there was a breach of contract, would have to deal with the preliminary question and determine whether the right existed (was valid). Article 8 is relevant in these situations. A determination on validity is normally subject to the exclusive jurisdiction of the State where the right was granted or registered (as reflected in Art. 6(a)) – at least if it is the **object** of the proceedings. Under many national legal systems, however, a “preliminary” or “incidental” finding on the validity of the IP right, ruling on the question “on the way to” the court’s determination on the contractual issue which is the object of the proceedings is possible. Such a finding (called “ruling” in Art. 8) will not be granted any cross-border effect<sup>39</sup> under the draft Convention (Art. 8(1)), and only the money judgment awarding what was requested in the contractual dispute (*e.g.*, a payment of royalties) could be recognised and enforced across borders.<sup>40</sup> However, even this money judgment may be refused cross-border recognition and enforcement if it was based on a ruling on the (in)validity of the IP right and was given by a court **other than** the court referred to in Article 6(a), but this will occur **only if** the ruling is actually inconsistent with a judgment or a decision of a competent authority<sup>41</sup> given in the State referred to in Article 6(a) or proceedings concerning the validity of that right are pending there (Art. 8(3)). Thus, the core of the application of Article 8(3) is that the State of origin of the judgment is different from the State of registration of the IP right.

53. The application of Article 8(3) means that a contractual party who obtained a judgment ordering the payment of royalties or awarding compensation for the breach of a contract concerning a registered IP right from courts outside the State of registration of that right, *e.g.*, the State where the performance of contractual obligations took place or should have taken place (Art. 5(1)(g)), can also enforce the money judgment in other Contracting States, even though the validity issue (the ruling on the preliminary question) was decided outside the State of registration of the right – unless there is indeed a conflicting judgment or decision on the validity given by a court or competent authority of the “proper forum”, *i.e.*, the State of registration, or proceedings on validity are pending there. In practice, this also means that the defendant who did not succeed with the invalidity defence in the contractual proceedings has a chance to prevent recognition and enforcement of the damages / compensation award resulting from those proceedings if he/she challenges the validity of the IP right in the proper forum. On the other hand, if the defendant whose defence was disregarded in the original proceedings does not even attempt to have the right declared invalid *erga omnes*, he or she will be bound to the judgment and exposed to its recognition and enforcement under the Convention.

**Example 7:** Imagine a judgment given in State X, where the defendant is habitually resident, ordering the defendant to pay royalties under a patent-licensing agreement. The judgment also ruled on the validity of a patent granted in State Y as a preliminary question. The ruling holds that the patent is valid, and as a consequence, the judgment orders the defendant to pay royalties to the judgment creditor. The ruling on this preliminary question of validity would not be recognised under the draft Convention, as stated in Article 8(1). Naturally, the court of the requested State has to recognise and

<sup>39</sup> Such as recognition, issue preclusion, or issue estoppel.

<sup>40</sup> On the general question as to whether in IP matters, only monetary relief or also judgments ordering injunctive relief should be eligible for recognition and enforcement under the draft Convention, see the discussion on Art. 11 below.

<sup>41</sup> On decisions by IP offices, see *supra*, para. 18. It is important to note that, as the text currently stands, *only in Art. 8(3)*, decisions of patent, plant variety and trademark offices (competent authorities) and possible boards of appeal within these offices are covered by the Convention – not in the sense that they give judgments which would circulate under the Convention, but their determinations on the validity of the IP right, if any, would be decisive for determining whether, *e.g.*, a money judgment could be recognised and enforced under the Convention if the invalidity of the IP right was raised as a defence in the proceedings leading to that money judgment. An informal working group was established to discuss the treatment of the decisions of competent authorities in relation to the validity of IP rights in general.

enforce the main decision, *i.e.*, the judgment on paying the royalties, in accordance with the draft Convention, but is not bound to give any effect to the ruling on the preliminary question. (It should be noted that this would not be the result if Art. 8(2) were applied in isolation, but Art. 8(3) limits the application of Art. 8(2) to IP-related matters.) This also implies that – depending on the national law of the State concerned – the foreign judgment may not prevent (under issue estoppel or a similar doctrine) new proceedings in the State whose courts have exclusive jurisdiction to rule on the validity of the concerned patent.

Thus, if the defendant in State X brings proceedings in State Y on the validity of the patent as the main object, and the courts of State Y deliver a judgment declaring the patent invalid, in accordance with Article 8(3)(a), the courts of the requested State (which may be State Y or another Contracting State) may refuse to recognise or enforce the judgment awarding damages / compensation given in State X.<sup>42</sup>

54. The provision is in principle not relevant to judgments regarding the *infringement* of a registered IP right where the invalidity of the right was raised as a defence. As discussed above, Article 8(3) is to be applied on the basis that the State of origin of the judgment is different from the State of registration of the IP right. Since the draft Convention establishes a *quasi*-exclusive basis for the recognition and enforcement of judgments on the infringement of registered IP rights (Art. 5(3)(a)), requiring the State of origin of the judgment to be the State in which the right concerned is registered, and this basis coincides with the exclusive jurisdictional filter laid down in Article 6(a) for the validity of registered IP rights, Article 8(3) will normally not be relevant because the court of the State of registration, which is the State of origin of both the judgment on infringement and the judgment on the validity of registered IP rights, will rule on the invalidity defence when determining the infringement of the registered IP rights.

55. It is important to note that this provision may remain relevant<sup>43</sup> irrespective of whether IP-related matters were to be excluded from the scope of the Convention or not, as contractual disputes dealing with IP licensing or transfer fall within the scope of the Convention even if IP-specific litigation is excluded.

## 6. Article 11 – Non-monetary remedies in IP matters

56. Provided that IP-related judgments were to be included within the scope of the Convention, it will have to be decided whether their cross-border enforcement should be restricted to money judgments. If that is the policy choice, this Article would exclude the enforcement (and possibly also the recognition) of non-monetary judgments on an infringement in IP matters under the Convention. In this field, it covers both registered and unregistered IP rights. Non-monetary remedies, which are remedies other than the payment of a fixed or ascertainable sum of money, typically include injunctions to do or refrain from doing something, or orders for specific performance. In the context of IP rights, they cover, for example, injunctive relief prohibiting the production or marketing of goods, the use of protected manufacturing processes, or orders to surrender and deliver infringing goods.<sup>44</sup> In this context, however, it is important to highlight that the draft Convention as a whole only applies to judgments given on the merits, *i.e.*, not to what is called interim measures of protection, provisional and protective measures, interim injunctive relief, interlocutory decisions, etc. in different legal systems.<sup>45</sup> And although judgments on the merits granting these remedies would not benefit from the application of the draft Convention either if Article 11 were to be included, they could still be recognised or enforced under national laws (Art. 16).

57. Article 11 was introduced at the February 2017 Special Commission meeting to address the concern of some delegations that they did not want to be obliged to enforce in their territory orders other than money judgments which protect a foreign IP right, and they therefore

<sup>42</sup> Note that, in this example, Art. 7(1)(f) would not apply since the judgment in State Y was rendered after the judgment in State X.

<sup>43</sup> Subject to some technical adaptations as Art. 6(a) would likely be deleted if IP were to be excluded from the scope of the Convention.

<sup>44</sup> On the remedies to violations of IP rights, see Arts 44-48 of the TRIPS Agreement.

<sup>45</sup> Art. 3(1)(b) “[...] An interim measure of protection is not a judgment”.



proposed to limit the draft Convention in IP matters to the enforcement of monetary judgments. Other delegations however held the opposite view, namely that there is a need to enforce non-monetary judgments concerning IP infringement which occurred in the traditional world<sup>46</sup> and in the online context.<sup>47</sup>

58. At the November 2017 Special Commission meeting, despite the fact that Article 5(3)(a) and (b) limit the enforcement of a judgment on an IP infringement to “an infringement in the State of origin”, some delegations considered it necessary to strengthen the principle of territoriality in IP matters even further, and to highlight that even monetary judgments, if they are related to harm suffered in States other than the State of origin, will not be recognised and enforced under the draft Convention.

59. Furthermore, at this meeting, certain delegations raised the question as to whether recognition of non-monetary judgments should also be excluded. In the context of a validity judgment concerning an IP right or a judgment declaring the violation of an IP right, if enforcement of non-monetary judgments is excluded, but not recognition, any such judgments will have, for example, *res judicata* or preclusive effects in other States under the draft Convention if it complies with Articles 5(3) and 6(a). If non-monetary judgments which do not require enforcement, such as a judgment declaring the violation or non-violation of an IP right, can be recognised under the Convention, this may enhance the universal administration of justice as it would avoid irreconcilable judgments. Since no consensus was reached, it was decided to put “recognition” in square brackets for further consultation (an example for this can be seen in para. 87)

60. The above provisions are directly related to IP matters. There are, however, other provisions that are general in nature, but do have relevance to IP matters which are worth mentioning in this Paper.

## **7. Article 9 – Severability**

61. Article 9 sets forth that where a severable part of the judgment is not eligible for recognition or enforcement under the Convention, *e.g.*, in the context of IP-related judgments, because the requirements of Article 5(3) are not met, or because Article 7(1)(g) or Article 11 applies (provided that they are kept), the remaining part shall still be recognised or enforced under the Convention. The same applies where the application for recognition and enforcement only relates to a severable part of the judgment.

## **8. Article 10 – Damages**

62. Article 10 is a provision which is of particular relevance with regard to IP-related judgments. In many States, damages in IP infringement cases may contain compensatory damages compensating the plaintiff for actual (including future) losses suffered, and damages that are intended to punish the defendant and deter him / her and others from committing similar infringements in the future. Currently, judgments awarding punitive / non-compensatory damages are often refused recognition and enforcement abroad, based on public policy considerations or other reasons. Article 10 seeks to strike a balance between the obligation to recognise and enforce, and full refusal where the judgment awards non-compensatory damages. The obligation to recognise and enforce the compensatory part is reiterated, and Article 10 provides a discretionary, non-mandatory basis for refusing recognition and enforcement of the non-compensatory part of the damages award.

63. This provision was copied from Article 11 of the 2005 Choice of Court Convention. During the negotiations leading to that Convention, this Article and the related text of the Explanatory

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<sup>46</sup> For example, a court in State X issued a judgment against the defendant, B, who resides in State Y, to stop marketing counterfeited goods in State X. The trademark concerned is protected in State X. B however does not stop his activities, so the plaintiff, A, takes the judgment to State Y and requests enforcement measures (*e.g.*, a fine to be ordered against B for continuous non-compliance with the judgment.)

<sup>47</sup> For example, there is a need to enforce an injunction order: a judgment from State X ordering B, the defendant, to close down his website because B infringed the plaintiff A's IP right protected in State X. In State Y where B resides, his website is legitimate. If the court in State X found that B's activities were targeting State X, the judgment would be eligible for recognition and enforcement under Art. 5(3)(a) or (b).

Report,<sup>48</sup> which was for the most part elaborated by a working group and adopted by the Diplomatic Session which adopted the Convention, were very carefully crafted. They contain important guidelines for interpreting and applying this rule, *e.g.*, with regard to statutory and liquidated damages which are to be considered as compensation for actual loss or harm. The extract of the Explanatory Report by Professors Trevor Hartley and Masato Dogauchi relating to the 2005 Choice of Court Convention is therefore reproduced in the Annex to this Paper. During the February 2017 Special Commission meeting it was suggested to carry over this text – with necessary adaptations – to the Explanatory Report on the Judgments Convention. No revisions were made at the November 2017 Special Commission meeting.

## 9. Article 21 – Common courts

64. At the February 2017 Special Commission meeting, there was substantial support for the inclusion of the provision reflected in Article 22 of the February 2017 draft Convention to introduce a mechanism in the Convention to expressly include judgments given by courts common to two or more Contracting States.<sup>49</sup> This is of particular relevance for this topic, as most existing common courts are IP-related. Since it was noted that further consideration of this topic was needed, the PB prepared a document to flag the issues related to the common courts for the attention of the November 2017 Special Commission meeting.<sup>50</sup>

65. A wide range of approaches in relation to common courts was discussed at the November 2017 Special Commission meeting, including:

- inserting a reference to common courts in a definition of “court” in Article 3(1);
- adding a reference to judgments given by common courts in Article 4;
- making amendments to Article 22 of the February 2017 draft Convention, including providing for more detailed declarations and some form of bilateralisation mechanism; and
- omitting any reference to common courts in the text of the draft Convention (given the complexity of the provision), and explaining in the Explanatory Report whether, and on what basis, the judgments of common courts may circulate under the Convention.

66. Adding a reference to judgments given by common courts within Article 4 would simplify the declaration mechanism within Article 21 (former Art. 22 of the February 2017 draft Convention), which is complex as it distinguishes types of courts and their first instance and appellate functions.<sup>51</sup> The underlying policy for this approach is that a judgment given by a common court should be treated in the same way as that of a Contracting State for the purposes of recognition and enforcement, but such a judgment should have a connection to the Contracting States to the Convention, *i.e.*, common court judgments should be eligible for recognition and enforcement under the Convention where the requirements of a jurisdictional filter set forth in Article 5 or 6 are met in a Contracting State whose judicial functions over the matter in question are being exercised by the common court. This reference to the Articles 5 and 6 filters is a way of addressing the “free-rider” problem, which arises in the situation where the States that established the common court are not all Contracting States to the Convention; the judgments connected to non-Contracting States could then benefit from the Convention, without the need to reciprocate if this issue is not addressed in the draft Convention.

67. The proposed amendments to Article 21, to require a bilateral declaration mechanism, would address the need seen by some delegations for greater autonomy to accept or reject the

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<sup>48</sup> T. Hartley and M. Dogauchi, “Explanatory Report on the 2005 Hague Choice of Court Convention”, in *Proceedings of the Twentieth Session (2005)*, Tome III, *Choice of Court Agreements*, Antwerp/Oxford/Portland, Intersentia, 2010, pp. 785-863. Also available on the Hague Conference website at < [www.hcch.net](http://www.hcch.net) > under “Instruments” then “Conventions, Protocols and Principles” then “Convention of 30 June 2005 on Choice of Court Agreements” and “Explanatory Report”.

<sup>49</sup> *Aide Memoire* of the Chair of the Special Commission of 16-24 February 2017, para. 22. The document is available on the Secure Portal of the Hague Conference website (see path indicated in note 4).

<sup>50</sup> See “Note on ‘common courts’ in Article 22 of the February 2017 draft Convention”, Prel. Doc. No 9 of October 2017 for the attention of the Third Meeting of the Special Commission on the Recognition and Enforcement of Foreign Judgments (13-17 November 2017) (hereinafter, the “Common Courts Note”). The document is available on the Hague Conference website (see path indicated in note 5).

<sup>51</sup> For the operation of Art. 21, see Section B of the Common Courts Note and paras 36 and 37 of the EU Discussion Document on IP.

inclusion of certain common courts, given the range of court types that this mechanism could conceivably cover. According to this approach, Contracting States that establish a common court would be required to make a declaration stating that court's competence and functions, etc. This requirement would promote transparency, allowing all Contracting States to understand the role of that common court. In addition, the proposed amendments introduce a bilateralisation mechanism, requiring the requested State, which would recognise or enforce judgments delivered by the common court, to accept (or reject) the declaration which another Contracting State made in relation to the common court. This would allow requested States to control, to some extent, what kind of common court judgments they would be bound to accept.

68. While no consensus was reached on this issue, the Special Commission decided to proceed on the basis that Article 21 should remain in the text in square brackets to facilitate further consideration. Intersessional work is being conducted to further study this topic.

## 10. Article 14 – Procedure

69. Although Article 14 is not specific to IP matters, it is important and useful to highlight how the procedure for recognition and enforcement is regulated under the draft Convention. Subject to Article 13, the draft Convention leaves the procedure to internal law (Art. 14). This law will determine, for example, whether recognition needs to be applied for and will be granted following some domestic *procedure*, or whether it occurs by operation of law. It could also determine whether the courts of a particular Contracting State would be *obliged* by their internal law to refuse recognition or enforcement under the Convention if one of the refusal grounds mentioned in Article 7 is met.<sup>52</sup>

70. With regard to enforcement, this Article makes a distinction between, on the one hand, declaration of enforceability or registration for enforcement and, on the other hand, enforcement.<sup>53</sup> The first terms refer to the so-called *exequatur* proceedings, *i.e.*, the special proceedings by which the competent authority of the requested State confirms or declares that the foreign judgment is enforceable in that State. The second term refers to the legal procedure by which the courts of the requested State (or any other competent authority in this State) ensure that the judgment-debtor obeys the foreign judgment; it includes measures such as fine, seizure, confiscation, attachment, etc. (see also *infra*, para. 71). The enforcement of a foreign judgment presupposes a declaration of enforceability or a registration for enforcement. According to this Article, both types of proceedings are governed by the domestic procedural law of the requested State.

## 11. Recognition and enforcement

71. **Enforcement** (which only arises with respect to judgments mentioned in categories 5 and 6 under Section D.1 above) is probably what first springs to the mind of IP lawyers in cross-border cases. As the term "enforcement" has various different meanings, it is worth mentioning that in the context of the draft Convention it means the application of coercive enforcement measures (*e.g.*, monetary fines, arrest, acts physically performed by the enforcement forces, for example, the removal of objects, etc.) on behalf of the State where enforcement is sought in order to achieve the compliance of the judgment debtor with the judgment.

72. However, as will be illustrated by examples below, mere **recognition** can also be important in cross-border IP cases, notwithstanding the fact that IP rights as such, their existence and validity, are territorial, and therefore any judgments on these issues ostensibly may not require any cross-border recognition. Many countries assume jurisdiction over claims regarding contractual IP issues even where the validity of the IP right might later be challenged by way of a defence, as described above with regard to Article 8 (see *supra*, paras 51-55). If this is the case, it would add to the coherence of the international legal system if the court hearing the contract case were bound by a judgment having the validity of the IP right as its object which has already been given by the universally recognised "proper forum" as defined in Article 6(a). In fact, this recognition of the validity judgment will also enhance the circulation of the subsequent judgment awarding damages for breach of the contract given in another

<sup>52</sup> Art. 7 is a "may"-provision, thus only allowing, but not obliging, to refuse recognition or enforcement under the draft Convention.

<sup>53</sup> Note, however, that in other provisions of the draft Convention, the term "enforcement" is used with the meaning of "declaration of enforceability or registration for enforcement" (see *e.g.*, Art. 5 or 7).

Contracting State, *e.g.*, the State of habitual residence of the defendant (Art. 5(1)(a)) because the preliminary or incidental ruling on the validity of the IP right is consistent with the validity judgment given earlier in the State of grant or registration, as required by Article 8(2) and (3). Therefore, recognition and enforcement of the money judgment awarding damages is ensured.

73. Additionally, recognition may also be important when there is a judgment that may circulate under the draft Convention in accordance with Article 5(3) and a party seeks to re-litigate the dispute before the court of another Contracting State.

**Example 8:** A brings a claim against B in State X on the infringement of a trademark registered in this State. The action is dismissed because the court holds that B's behaviour did not constitute an infringement of A's trademark, and this judgment may circulate under the draft Convention (provided that the words in Art. 11 which would limit the recognition under the draft Convention are not included). If, subsequently, A brings a new claim based on the same facts before the courts of State Y, where B is habitually resident, B may benefit from the recognition of the first judgment under the draft Convention to invoke the issue preclusion or *res judicata* defence.

## 12. General and final clauses

### a. Article 19 – Declarations with respect to specific matters

74. In order to achieve the widest possible adherence to the Convention, Article 19 allows for declarations excluding the application of the draft Convention to a "specific matter". Such declarations will have reciprocal effect in the relations with other Contracting States. If IP is ultimately included within the scope of the draft Convention, a State having concerns relating exclusively to, for example, patents might exclude litigation related to patents from the scope of the draft Convention. Excluding IP as a whole would also be possible.

### b. Article 25 – Relationship with other international instruments

75. Article 25 governs the relationship of the Judgments Convention with other international instruments. At the November 2017 meeting of the Special Commission, it was decided that this Article requires further work, as some elements still require further consideration and intersessional work should be conducted with a view to the preparation of the discussion at a further meeting of the Special Commission.<sup>54</sup> The current text provides generous policies in terms of dealing with the relationship with other international instruments. It distinguishes the treatment of international instruments concluded before and after the entry into force of the Convention for the Contracting State concerned. For those concluded before the Convention enters into force for that State, paragraph 2 ensures that there is no effect on that State's international obligations under other public international law instruments,<sup>55</sup> whereas for those instruments concluded after the entry into force of the Convention for that State, the draft Convention gives priority to them for the purposes of obtaining recognition and enforcement of a judgment given by a court of a Contracting State that is also a Party to that instrument. It still needs to be considered, however, how to deal with situations where recognition and enforcement under another more recent instrument would affect obligations under Article 6 of the draft Convention. A sentence was included within square brackets for the purposes of further consultation. A declaration mechanism permitting Contracting States to declare that other international instruments listed in the declaration would remain unaffected by the draft Convention will also require further study.

76. With regard to the relationship of the Judgments Convention with the rules of a Regional Economic Integration Organisation (REIO) which is a Party to the Judgments Convention, the rules of the REIO remain unaffected – whether adopted before or after the Judgments Convention – with regard to the recognition or enforcement of judgments among Member States of the REIO. The EU will therefore be entitled to continue applying its internal rules governing

<sup>54</sup> *Aide Memoire* of the Chair *op. cit.* note 6, para. 27.

<sup>55</sup> This is regardless of the date of entry into force of that other Treaty for any of the States concerned because in international Treaty law, it is the date of the adoption of the text of a multilateral Treaty (its conclusion) and not that of its entry into force which is decisive (see Sinclair, *The Vienna Convention on the Law of Treaties*, 2<sup>nd</sup> ed. 1984, p. 98; Zuleeg, *Vertragskonkurrenz im Völkerrecht, Teil I: Verträge zwischen souveränen Staaten, German Yearbook of International Law (GYIL)* 20 (1977), p. 246 (256)), unless explicitly stated otherwise.

the recognition and enforcement of judgments among EU Member States, and also the specific EU instruments with regard to IP rights which govern the recognition and enforcement of judgments.

77. It should be noted that the current text applies also to the international treaties or instruments on the recognition and enforcement of judgments in civil or commercial matters that cover IP matters. As a result, if IP-related judgments were included in the scope of the Judgments Convention, the above provisions would also apply to the conflicts of the Judgments Convention and these international treaties or instruments which would thus prevail.

### **13. Examples illustrating the operation of the draft Convention with regard to IP-related judgments**

78. The following hypothetical cases will illustrate how the provisions of the draft Convention will work with regard to certain IP-related judgments. They are based on the assumption that all States mentioned are Parties to the draft Convention.

#### **a. Basic case on patents<sup>56</sup>**

79. Plaintiff A lives in State X. He has been granted a patent for an invention in State X. Defendant B, who also lives in State X, is producing a product very similar to A's invention in State X. He only sells the product in State X.

80. A sues B in State X. He obtains a judgment awarding damages for patent infringement based on the patent law of State X, and also an injunction (on the merits, not merely as an interim measure of protection) stopping B from continuing his infringing behaviour in State X. B does not pay the damages, so A wants to proceed to enforcement. As it turns out that B has moved his assets to State Y, A applies for recognition and enforcement of the judgment in State Y. The judgment would be covered by the filter in Article 5(3)(a) as infringement occurred in State X (the State of origin of the judgment) and the judgment was given by a court in State X (the State in which the grant of the patent has taken place). The invalidity of the patent was not raised as a defence in this hypothetical case. Provided that Article 7(1)(g) is adopted, the court addressed in State Y would then apply the safeguard rule contained in Article 7(1)(g) and check whether the court of origin in State X did indeed apply its own laws to the [patent / infringement]. As none of the IP-related safeguards / limitations in Articles 6(a) and 8 apply, the part of the judgment which awards monetary damages to A can be enforced into B's assets in State Y.

#### **Variant 1: Enforcing injunction orders outside the State of origin**

81. This variant is based on the assumption that the draft Convention does not exclude the enforcement of non-monetary judgments, *i.e.*, Article 11 is not adopted. Assuming that B has moved his habitual residence to State Y, and does not comply with the injunction order given by the court in State X to stop his infringing activities in State X, A will have a legitimate interest in enforcing the injunction in State Y.<sup>57</sup> In this case, the court addressed may order B to pay a sum of money<sup>58</sup> to enforce B's compliance with the order and / or order other remedies available in the requested State to enforce orders of this nature. This would be an enforcement measure taken in State Y to enforce the judgment given in State X.

82. The situation is different if the judgment itself also contains pecuniary penalties which would apply when B does not comply with the injunction order. In this case, these pecuniary penalties are severable from the part of the judgment providing the injunctive remedy. As to the nature of these pecuniary penalties, in some jurisdictions they are payable to the courts or fiscal authorities, whilst in others they are payable to the judgment creditor. In the former case, those penalties are not within the scope of the draft Convention if they are not qualified as civil

<sup>56</sup> These examples can apply, *mutatis mutandis*, to plant breeders' rights since they are similar to patents, and to other IP rights required to be granted or registered.

<sup>57</sup> If B were to produce and market his product containing A's patented invention in State Y, this would not violate A's patent granted for State X, because outside the territory for which the patent was granted, State X, B's behaviour is lawful in respect of this patent. But if B continues to ship his infringing goods also to State X he would be in breach of the injunction.

<sup>58</sup> Note also that the "penalty" may be a fixed sum, *e.g.*, a civil fine, or a periodic penalty payment for each day of delay or non-compliance.

or commercial matters. In the latter case, in principle, they may be within scope if their objective is to compensate the judgment creditor for any delay in the fulfilment of the injunction; Article 10 may apply in this case.

83. [Alternative formulation: periodic penalties that accompany injunctive relief are not decisions on the merits and therefore do not meet the definition of judgment for the purposes of the draft Convention, irrespective of whether they are payable to a public authority or the judgment creditor. One may also consider the consistency of this formulation with the concept of a decision on the merits, since the judgment as a whole is a decision on the merits, and this is one aspect of the relief ordered in the course of determining the merits of the dispute.<sup>59]</sup>

### **Variant 2: Invalidity defence**

84. Plaintiff A lives in State X. He has been granted a patent for an invention in State X. Defendant B, who lives in State Y, has concluded a licensing agreement with A to manufacture and sell A's patented products in State X.

85. A sues B in State Y at B's habitual residence, alleging that B failed to pay the license fees as specified in their agreement. In the proceedings, B invokes the invalidity of the patent as a defence. In order to decide upon the claim for breach of the contract, the court must first come to a conclusion on how to deal with this invalidity defence. Under the law of State Y, it is possible for the court to make a finding on such a preliminary question on its way to the judgment, which will only have effect *inter partes*. The court in State Y in this case concludes that the patent was validly granted under the law of State X, and that B's behaviour breached his / her contractual obligation to pay. The court thus makes a money order awarding payment for the breach of the contract.

86. A now wants to enforce his money judgment in State Z, to which B has moved his assets during the proceedings. The filter in Article 5(1)(a) applies. Article 6(a) would not apply as a restriction because the intention behind this provision is to cover only judgments where the registration or validity of the IP right is the object of the proceedings. In this example, however, the object of the proceedings, as determined by the action brought by A, is payment – performance of the contract – and not the validity of the patent.<sup>60</sup> In these situations, Article 8 is of relevance. The general, non-IP-specific rule in Article 8(1) states that the finding on the invalidity defence (the "ruling" on the "preliminary" question of validity of the patent) is not capable of being recognised or enforced under the Convention.<sup>61</sup> Only the "order" in the narrow sense of the word, *i.e.*, the part of the judgment which orders B to pay the licensing fee to A, is eligible to be recognised or enforced under the Convention. But in respect of this part, there can also be some limits. Article 8(2) – also non-IP-specific – states that the recognition or enforcement of a judgment may be refused if, and to the extent that, the judgment was based on a matter referred to in Article 6 on which a court other than the court referred to in that Article ruled. Applied to this example, this general rule would mean that recognition and enforcement of the payment award given by a court in State Y for the breach of the licensing agreement concerning a patent granted by State X could be refused by the courts of State Z because the judgment (*i.e.*, the money award) was based on a finding on the validity of the patent ("a matter referred to in Article 6") and a court other than that of State X (namely the court of State Y) ruled on it. However, for IP matters, Article 8(3) limits this general rule for the benefit of the right-holder. Applied to the above case, it states that recognition or enforcement of the judgment awarding payment may only be refused under paragraph 2 where the (incidental or preliminary) ruling on the validity is inconsistent with a judgment or a decision of a competent authority in State X (the State which granted the patent) or if proceedings concerning the validity of the patent are pending there. In other words, if B wants to be sure that the monetary award cannot be recognised or enforced under the draft Convention because in his view the State X-patent is invalid, he has to go to State X and challenge it there because only a decision by State X could nullify the patent with effect *erga omnes*. If B only raises the invalidity defence in the State other than State X, and the court seised came to the conclusion

<sup>59</sup> As referred to in Prel. Doc. No 10 of April 2018 "Judgments Convention: Revised preliminary Explanatory Report" by Francisco Garcimartín and Geneviève Saumier, para. 76, this interpretation requires clarification from the Special Commission.

<sup>60</sup> The wording of this rule was modelled on Art. 10 of the 2005 Choice of Court Convention.

<sup>61</sup> As is the case without the Convention, any cross-border effect of this finding on the preliminary question of validity (issue estoppel, etc.) would be governed by the national law of the States concerned.

that the defence was irrelevant, the money judgment would be entitled to recognition or enforcement under the draft Convention. This system protects the exclusive jurisdiction of the "proper forum" for validity disputes and actually encourages parties doubting the validity to seise the proper forum.

### **Variant 3: Mere recognition**

87. This variant is based on the assumption that the draft Convention does not exclude the enforcement of non-monetary judgments, *i.e.*, Article 11 is not adopted. Let us assume that B was the first to bring proceedings and sued in State X to have the invalidity of the patent granted to A by State X established there. However, his claim was rejected because the court finds the patent valid. If later A sues B for the non-payment of licensing fees in State Y at B's habitual residence and B raises the invalidity defence, the court in State Y would be bound to recognise the validity judgment from the court<sup>62</sup> in the "proper forum" under Article 6(a) and cannot come to a different finding on the preliminary question of validity, if recognition of non-monetary judgments is not excluded from the draft Convention. The court will of course have to come to its own conclusions on the question of whether B failed to pay A licensing fees as specified in their agreement, and on the calculation of the payment to be awarded.

#### **b. Basic case on trademarks: recognition of an invalidity judgment**

88. A owns a registered trademark which was registered for States X, Y and Z. B, who lives in State W and fears being sued for damages based on an infringement of A's trademark in State X, brings an action in State X for a judgment declaring that A's trademark for State X is invalid. This judgment is then indeed granted by the court of State X, applying the law of State X.

89. While these proceedings on the validity of the trademark were still pending, A had already brought an action for damages based on an alleged infringement of the trademark registered in State X. This action was brought in State W at B's habitual residence. During the course of these infringement proceedings, the court in State X gives its judgment mentioned above, declaring A's trademark to be invalid in State X.

90. The draft Convention will ensure that the court in State W which is seised of the infringement proceedings has to recognise the judgment on the invalidity given by State X, the State of registration of the trademark. Consequently, the action for damages brought by A against B in State W will be dismissed.

91. Recognition of the invalidity judgment will be based on Article 6(a) of the draft Convention (provided that the words in Art. 11 which would limit the recognition under the draft Convention were not included). Because validity issues are so important, and so closely connected with the registration or grant as such in the case of IP rights required to be granted or registered, practically all legal systems consider the jurisdiction of the State of registration to be exclusive. Hence, Article 6(a) states that notwithstanding Article 5, a judgment that ruled on the registration or validity of an IP right required to be granted or registered shall be recognised and enforced if and only if the State of origin of the judgment is the State in which grant or registration has taken place, or under the terms of an international or regional instrument is deemed to have taken place.

### **Variant 1: Recognition of a validity judgment**

92. Let us assume that as in the example above, B sues A in State X to obtain a judgment declaring A's trademark to be invalid in State X. But as required by the law of State X, A responds by a counterclaim for a judgment declaring that the trademark is valid. If the court dismisses B's claim and grants the counterclaim brought by A, declaring that the trademark is valid in State X, this judgment could theoretically fall under the filter mentioned in Article 5(1)(l)(i) (judgment given on a counterclaim in favour of the counterclaimant). Again, however, Article 6 is the special rule for judgments on the validity of IP rights required to be granted or registered, trumping all rules in Article 5, including Article 5(1)(l)(i). As in the

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<sup>62</sup> It should be noted that the question whether a decision by a patent office, nullifying the patent in State X, should be made eligible for recognition under the draft Convention is currently being discussed.

example above, also the validity judgment in favour of A would thus be recognised in other Contracting States to the draft Convention (provided that the words in Art. 11 which would limit the recognition under the draft Convention were not included). This is useful because under many national laws, infringement actions do not necessarily have to be brought in the State under the law of which the IP right is protected or where it was registered or granted. In many jurisdictions it is possible to bring such an action in the general defendant's forum. Thus, if A now sues B for damages based on the infringement of his trademark registered in State X and does this in State W where B is habitually resident, the courts in State W could not accept any defence by B that the trademark is allegedly invalid because they have to recognise the validity judgment from State X under Article 6(a).

93. It should nevertheless be noted that if, in the above example, a court in State W delivered a judgment on the infringement of the trademark registered in State X, the judgment would not be entitled to the recognition and enforcement in other Contracting States under the draft Convention, as the draft Convention provides a specific jurisdictional filter for the infringement of IP rights required to be registered or granted in Article 5(3)(a): such a judgment would only be eligible for recognition and enforcement under the draft Convention if it were given by a court in the State in which the grant or registration of the right concerned has taken place, and in the current example, this would be the case if it were given by a court in State X. Other States, including State W, which is B's habitual residence, are not the "proper forum" for the purpose of recognition and enforcement under the draft Convention. The draft Convention, however, does not stop Contracting States from recognising or enforcing such infringement judgments under their national laws, regardless of whether the validity of the IP right was challenged by way of *defence* in the course of proceedings. Where validity was the *object* of the proceedings, on the other hand, Articles 6(a) and 16 would prevent recognition under national law if the judgment were not given by the State of registration.

#### **Variant 2: Recognition of a validity judgment in multi-State infringement proceedings and enforcement of a judgment awarding damages in infringement claims**

94. The effect described above is useful also in another situation. At the beginning of example b, it was mentioned that A had his trademark registered in States X, Y and Z. B lives and manufactures in State W where he also operates a website on which he uses the logo which in States X, Y and Z is registered for A. Therefore, if A now wants to sue B for damages arising from infringement of his State X-trademark, the courts in States Y, Z and W would be obliged by the draft Convention to recognise the judgment already given by the courts of State X in favour of A on the validity of this trademark. The courts in States Y and Z could only make their own findings on validity, provided that invalidity is raised as a defence, with regard to the trademark registered in their respective States.

95. With regard to infringement disputes, judgments given by a court of State X ruling on an infringement of State X-trademark in State X will be eligible for recognition and enforcement in other Contracting States (Art. 5(3)(a)), but – provided Art. 7(1)(g) is adopted – if the court of State X did not apply its own substantive law to the [trademark / infringement], its judgments may be refused recognition and enforcement (Art. 7(1)(g)). Similarly, the draft Convention applies to judgments given by a court of State Y ruling on an infringement of State Y-trademark in State Y, and such judgments may be refused recognition if the court did not apply the substantive law of State Y. Moreover, depending on whether the words in square brackets are included into Article 5(3)(a) or not, recognition and enforcement of the judgment under the draft Convention may depend on whether B has actually targeted his activity to, for example, State Y.<sup>63</sup>

#### **c. Basic case on copyright infringement**

96. A writes a novel in Lumian, a language almost exclusively spoken in the small country of Lumia, and publishes the book in Lumia, which is a Member of the Berne Union. Without A's knowledge, B translates the book into the language of Ruritania, which is much more widely spoken than Lumian, and offers the book for sale over the Internet through an online bookstore which runs a website in the language of Ruritania and delivers to basically all States around the world. A decides to sue B for copyright infringement at B's habitual residence in Ruritania, which

<sup>63</sup> For the operation of the targeting provision, see Example C on copyright infringement and its variant below.



is also a Member of the Berne Union. Assuming that the jurisdiction of Ruritania extends to the infringement of all the different national copyrights, which arose under the national laws of the other Member States of the Berne Union (this is the case once the work was published in Lumia in accordance with Art. 5 of the Berne Convention)<sup>64</sup>, in other words, there would be a possibility of consolidating the infringement claims at a court in Ruritania. In this context, A can determine to which of these national copyrights he / she wants to extend his / her action. The resulting judgment then orders B to stop selling the books in all the States covered by the claim and awards damages to A. However, because Article 5(3) of the draft Convention does not provide for the recognition and enforcement of judgments which ruled on consolidated disputes in their entirety (*i.e.*, for all the territorial rights protected under the law of the forum State and under the laws of other States), if A wants to enforce this judgment in another State, only the part of the judgment that ruled on the infringement in Ruritania can be recognised under Article 5(3)(b) of the Convention in other Contracting States.

### **Variant: Cross-border activity and targeting**

97. Let us assume the opposite situation. The book was written by A in the widely-spoken Ruritanian language and published first in Ruritania. B then translates it into Lumian, which is spoken by only very few people outside the small country of Lumia, and sells it via his own website which is set up in Lumian. The book can be ordered via a postal address in Lumia, an e-mail address ending with '.lum' or by telephone from a number in Lumia, indicated without international code on the website. A sues B in his own (the plaintiff's) State of habitual residence in Ruritania. It will depend on the law of Ruritania to decide whether Ruritania has jurisdiction. Most national laws grant jurisdiction if the alleged infringement is said to have occurred there (*i.e.*, if the injury arose there). In many States this jurisdiction will only extend to the violation of the copyright protected under the law of that one State. In that case, if the courts of Ruritania assume jurisdiction for the action relating to the alleged infringement of A's Ruritanian copyright, it would be for the internal law of Ruritania to decide whether B did actually infringe A's Ruritanian copyright. If Ruritania's jurisdiction rules are wider and allow the Ruritanian courts to assume jurisdiction also for the alleged infringement of A's copyright protected under the law of other States of the Berne Union, they would have to apply the copyright laws of those States to the respective parts of the claim.

98. Any resulting judgment given by the courts of Ruritania and ordering B to stop his / her infringing behaviour and / or to pay damages could only circulate under Article 5(3)(b) of the draft Convention as far as it relates to the copyright protected under the law of Ruritania. Moreover, depending on whether the words in square brackets are included into sub-paragraph (b) or not, recognition and enforcement of the judgment under the Convention may depend on whether B actually targeted his activity to Ruritania – which, under the circumstances described, might not be the case.

## **E Concluding remarks**

99. This Paper aims at facilitating the discussion on IP-related judgments under the draft Convention in preparation for a Diplomatic Session on the recognition and enforcement of foreign judgments. It explains the operation of the draft Convention in general, highlighting that the goal of the draft Convention is to enhance the circulation of judgments abroad and is not intended to regulate jurisdiction and choice of law rules of States. The Paper further illustrates the treatment of IP-related judgments in two options: to be included in, or excluded from, the Convention. The elaboration of option 1 – inclusion of IP-related judgments – demonstrates that the current draft does take the territorial nature of IP rights into consideration: it provides specific jurisdictional filters for IP-related judgments and sets forth additional safeguards for the recognition and enforcement of such judgments (which were drafted at a time when the jurisdictional filters still allowed for the recognition and enforcement of IP-related validity and infringement judgments from Contracting States other than the State under the law of which protection was claimed). In fact, under the November 2017 draft Convention, circulation of IP-related judgments would not change or affect the territoriality of

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<sup>64</sup> Berne Convention for the Protection of Literary and Artistic Works of 9 September 1886, completed at Paris on 4 May 1896, revised at Berlin on 13 November 1908, completed at Berne on 20 March 1914, revised at Rome on 2 June 1928, at Brussels on 26 June 1948, at Stockholm on 14 July 1967, and at Paris on 24 July 1971, and amended on 28 September 1979.

IP rights. If this option were indeed the preferred one, the issues which are now in the extra set of square brackets would require further consideration as highlighted in the discussion above. Similarly, if policy consideration were to lead towards option 2 – exclusion of IP-related judgments – the issues as to how the exclusion should be framed and whether the term “analogous matters” is appropriate would also require attention. In any event, it is hoped that this Paper will serve as a useful basis for the consultation with IP stakeholders and contribute to the discussion on the treatment of IP-related judgments under the draft Convention.

## **A N N E X**

**Extract from the Explanatory Report on the 2005 Hague Convention on Choice of Court Agreements by Professors Trevor Hartley and Masato Dogauchi, Hague Conference on Private International Law, Proceedings of the XXth Session, Tome III, p. 783 (833 et seq.)**

Article 11

**Article 11 – Damages**

203 Article 11 is concerned with damages. It permits the court addressed to refuse recognition or enforcement of a judgment if, and to the extent that, the award of damages does not compensate the plaintiff for actual loss or harm suffered. The equivalent provision in the 2004 draft Convention was Article 15, a more detailed and complex formulation.<sup>241</sup> At the 2005 Diplomatic Session it was agreed to delete this provision and replace it with the simpler provisions of Article 11. The reasons are explained below in the statement agreed by the Working Group which drafted it.

204 Article 11 refers to exemplary and punitive damages. These two terms mean the same thing: they refer to damages that are intended to punish the defendant and to deter him and others from doing something similar in the future. They may be contrasted with compensatory damages, which are intended to compensate the plaintiff for the loss he has suffered, that is to say, to put him in the position in which he would have been if the wrongful act had not occurred.

205 At the 2005 Diplomatic Session, the following statement was agreed by the members of the Working Group which drew up Article 11 and was adopted by the Session:<sup>242</sup>

*“(a) Let us start with a basic and never disputed principle: judgments awarding damages are within the scope of the Convention. So a judgment given by a court designated in an exclusive choice of court agreement which, in whole or in part, awards damages to the plaintiff, will be recognised and enforced in all Contracting States under the Convention. As such judgments are not different from other decisions falling within the scope of the Convention, Article 8 applies without restriction. This means both the obligation to recognise and enforce and all the grounds for refusal.*

*(b) During the negotiations, it has become obvious that some delegations have problems with judgments awarding damages that go far beyond the actual loss of the plaintiff. Punitive or*

<sup>241</sup> Art. 15 of the 2004 draft Convention, which is referred to in para. 205, *infra*, reads as follows:

*“Article 15 – Damages*

*1. A judgment which awards non-compensatory damages, including exemplary or punitive damages, shall be recognised and enforced to the extent that a court in the requested State could have awarded similar or comparable damages. Nothing in this paragraph shall preclude the court addressed from recognising and enforcing the judgment under its law for an amount up to the full amount of the damages awarded by the court of origin.*

*2. a) Where the debtor, after proceedings in which the creditor has the opportunity to be heard, satisfies the court addressed that in the circumstances, including those existing in the State of origin, grossly excessive damages have been awarded, recognition and enforcement may be limited to a lesser amount.*

*b) In no event shall the court addressed recognise or enforce the judgment for an amount less than that which could have been awarded in the requested State in the same circumstances, including those existing in the State of origin.*

*3. In applying the preceding paragraphs, the court addressed shall take into account whether and to what extent the damages awarded by the court of origin serve to cover costs and expenses relating to the proceedings.”*

<sup>242</sup> See Minutes No 19 of the Twentieth Session, Commission II, paras 13 and 14. The members of the Working Group were delegates and representatives of: Australia, Austria, Canada, China, the European Community, Germany, Japan, New Zealand, the Russian Federation, Switzerland, the United Kingdom and the United States of America. The Chairman was Mr Gottfried Musger (Austria). In the text that follows references to individual Articles (which were originally based on the 2004 draft of the Convention) have been changed to conform to the numbering adopted in the final text.

*exemplary damages are an important example. Some delegations thought that the public policy exception in Article 9 e) could solve those problems, but others made it clear that this was not possible under their limited concept of public policy. Therefore it was agreed that there should be an additional ground for refusal for judgments on damages. This is the new Article 11. As in the case of all other grounds for refusal, this provision should be interpreted and applied in as restrictive a way as possible.*

*(c) Article 11 is based on the undisputed primary function of damages: they should compensate for the actual loss. Therefore the new Article 11(1) says that recognition and enforcement of a judgment may be refused if, and to the extent that, the damages do not compensate a party for actual loss or harm suffered. It should be mentioned that the English word 'actual' has a different meaning from the French 'actuel' (which is not used in the French text); so future losses are covered as well.*

*(d) This does not mean that the court addressed is allowed to examine whether it could have awarded the same amount of damages or not. The threshold is much higher. Article 11 only operates when it is obvious from the judgment that the award appears to go beyond the actual loss or harm suffered. In particular, this applies to punitive or exemplary damages. These types of damages are therefore explicitly mentioned. But in exceptional cases, damages which are characterised as compensatory by the court of origin could also fall under this provision.*

*(e) This provision also treats as compensation for actual loss or harm damages that are awarded on the basis of a party agreement (liquidated damages) or of a statute (statutory damages). With regard to such damages, the court addressed could refuse recognition and enforcement only if and to the extent that those damages are intended to punish the defendant rather than to provide for a fair estimate of an appropriate level of compensation.*

*(f) It would be wrong to ask whether the court addressed has to apply the law of the State of origin or the law of the requested State. Article 11 contains an autonomous concept. It is of course the court addressed which applies this provision, but this application does not lead to a simple application of the law of the requested State concerning damages.*

*(g) Recognition and enforcement may only be refused to the extent that the judgment goes beyond the actual loss or harm suffered. For most delegations, this might already be a logical consequence of the limited purpose of this provision. However, it is useful to state this expressly. This avoids a possible 'all or nothing approach' some legal systems apply to the public policy exception.*

*(h) Both paragraph 1 and paragraph 2 of the old Article 15 contained very sophisticated rules on how much of the damages awarded by the court of origin had to be recognised and enforced in any case. The Working Group felt that this might be understood as giving the wrong message. Article 11 only provides for a review whether the judgment awards damages not compensating for actual loss; it does not allow any other review as to the merits of the case. Like all other grounds of refusal, it will only apply in exceptional cases. Any over-drafting with respect to those cases would have given them too much political weight.*

*(i) Article 11 does not oblige the court to refuse recognition and enforcement. This is obvious from its wording – the court may refuse – and it is consistent with the general approach in Article 9. So the provision in no way limits recognition and enforcement of damages under national law or other international instruments, and it allows (but does not require) recognition and enforcement under the Convention. Once again, the Working Group felt that an express provision would have been an over-drafting giving too much weight to the issue of damages.*

*(j) Article 11(2) is the old Article 15(3). Under Article 11(1), it could be argued that damages intended to cover the costs of proceedings were not compensating for an actual loss. This would*

*of course be wrong from a comparative perspective. But it is nevertheless reasonable to have an express reference to this problem within the provision. This reference does not contain a hard rule; the fact that damages are intended to cover costs and expenses is only to be taken into account.*

*(k) To sum up: the new Article 11 is shorter than the old Article 15, it is more in line with the general drafting of the Convention, and it addresses the real issues without adding complex and sophisticated rules which might be understood in the wrong way. Therefore the Working Group proposes that this provision be adopted."*