

Law Applicable to Online Infringements in CLIP and ALI Proposals: A Rebalance of Interests Needed?

(Authorship hidden for competition purposes)

Enforcement of copyright infringements online has recently become one of the most discussed topics in the doctrine and practice of copyright law. As online infringements are *per se* cross-border, international private law issues have also gained increasing attention, at least in the doctrine. However, in court practice their importance is still underestimated – few decisions thoroughly discuss jurisdictional questions, and even fewer mention issues related to applicable law. However, when the courts have found answers to still very problematic substantive law questions (e.g. indirect liability, copyright exceptions online), the attention towards international private law issues will most likely increase. Meanwhile, the rules of international private law need to be updated to new demands of online environment.

This paper will, firstly, give a short overview of the main problems of applicable law to copyright infringements. Apart from the general problems, the attention will be focused on whose interests – those of right holders or users (potential infringers) – are favored by existing practice. Secondly, the paper will focus on how the identified problems are solved, in particular, whether the interests of parties are balanced in the two most recent proposals – the American Law Institute’s (ALI) and Max Planck Group’s on Conflicts of Laws and Intellectual Property (CLIP) Proposals on Jurisdiction, Applicable Law, and Recognition and Enforcement of Judgments in Intellectual Property. The analysis will be limited to the issues related to copyright (not other intellectual property rights), applicable law (not jurisdiction) and infringements (not licensing); the especially sensitive initial ownership issue will be excluded from the scope of this paper.

Problem identification

It is generally accepted that copyright law is subject to territoriality principle, which requires one to adjudicate copyright infringements under the law of the protecting country (the so called “*lex loci protectionis*” rule). Both territoriality principle and *lex*

loci protectionis rule however have numerous problems. To mention a few general ones, the territoriality principle, as a principle of substantive law, is agreed to be an ambiguous concept without any clear meaning¹, its scope is more flexible than might be expected² and it seems to lose its ground in the context of ever more harmonized copyright laws and ever more globalized copyright commerce, especially on the Internet³. *Lex loci protectionis*, as a rule of applicable law, is no less problematic. It has no clear source at the international level⁴ and is rarely found in national statutes⁵. The Rome II Regulation⁶ has codified *lex loci protectionis* for intellectual property disputes in the EU⁷, however, its scope remains unclear⁸. It is further doubted whether territoriality principle, as a substantive law principle, indispensably leads to the *lex loci protectionis*, as an applicable law rule⁹. Also, delimitation of *lex loci protectionis* from other applicable law rules – especially from the *lex loci delicti* rule – is not clear both in doctrine and court practice¹⁰.

¹ See, e.g., Wadlow, Christopher, Enforcement of Intellectual Property in European and International Law para. 1-22 (London Sweet & Maxwell 1998); Kegel, Gehard & Seidl-Hohenveldern, Ignaz, *Zum Territorialitätsprinzip im internationalen öffentlichen Recht*, in Heldrich, Andreas & Henrich, Dieter & Sonnenberger, Hans-Jürgen, *Konflikt und Ordnung* 233-277, 234 (C.H. Beck'sche Verlagsbuchhandlung 1978).

² E.g., US courts apply an exception to the territoriality principle on the basis of a so called “root copy” approach – when an initial copy is made in the USA, damages in respect of all copies subsequently reproduced abroad could be granted under the US law, see Geller, Paul Edward, *International Intellectual Property, Conflicts of Laws, and Internet Remedies*, E.I.P.R. 125, 129 (2000).

³ Cf. Schack, Haimo, *Urheber- und Urhebervertragsrecht* para. 98 (Mohr Siebeck 2007).

⁴ There is no agreement if it can be derived from art. 5(2) of the 1886 Berne Convention for the Protection of Literary and Artistic Works, cf. Schack, supra note 3, p. 400 ff.; Drexl, Josef, *Europarecht und Urheberkollisionsrecht*, in Ganea, Peter et al. (eds.), *Urheberrecht. Gestern-Heute-Morgen* 461-479, 463 (Verlag C.H. Beck 2001).

⁵ E.g. it can not be found in German, French, UK or US statutes.

⁶ Regulation (EC) 864/2007 of the European Parliament and of the Council of 11 July 2007 on the law applicable to non-contractual obligations (Rome II), OJ L 199, 31.7.2007, p. 40-49.

⁷ Rome II Regulation, art. 8.

⁸ It is not clear if it covers only infringement-related issues (illegal acts, remedies) or also propriety-related ones (existence, scope, duration, initial ownership, transferability), see Leistner, Matthias, *The Law Applicable to Non-Contractual Obligations Arising from an Infringement of National or Community IP Rights*, in Leible, Stefan & Ohly, Ansgar (eds.), *Intellectual Property and International Private Law* (Mohr Siebeck 2009); Basedow, Jürgen & Metzger, Axel, *Lex loci protectionis europea*, in: Trunk, A. et al. (eds.) *Russia in the International Context: Private International Law, Cultural Heritage, Intellectual Property, Harmonization of laws*. Festschrift für Mark Moiseevic Boguslavskij 153, 162 (Berliner Wissenschafts-Verlag 2004).

⁹ Drexl, Josef, *Münchener Kommentar zum Bürgerlichen Gesetzbuch*. Band 11: Internationales Wirtschaftsrecht Art. 50-245 EGBGB, para. 13 (Verlag C.H. Beck 2005).

¹⁰ Some seek to draw a clear distinction between the two rules, see Drexl, supra note 9, para. 12; others use the expressions “law of protecting country” and “law of the place where the infringement occurred” interchangeably, see Fawcett, James J. & Torremans, Paul, *Intellectual Property and Private International Law* 499, 501, 507 ff. (Clarendon Press 1998).

Most importantly, it is argued here that, the application of the *lex loci protectionis* rule in online infringement cases has led to the imbalance of interests between right holders and users. When the content is made available over the Internet, *lex loci protectionis* allows the right holder to pursue the infringement under the law of each country where the work has either been uploaded or could be potentially accessed (downloaded, viewed, listened to, etc.)¹¹. This enables a right holder to pursue the infringer under the most protective law¹². Meanwhile the user (both an intermediary service provider (ISP) and a private consumer) who makes the works available online should adhere to each law where the work can be potentially accessed. This causes great legal uncertainty and hampers the development of legitimate online businesses.

Recently, the courts have started applying the so called “market effect” doctrine, which had been initially proposed by World Intellectual Property Organization (WIPO) for online trademark cases¹³. It defines the infringement as occurring only in the countries where the conduct had a commercial effect¹⁴. Its application to copyright cases, however, has until now been of little effect. Although mere access to content in the country is no longer sufficient to claim an infringement under its laws, the courts are often satisfied with minimum connecting factors in order to establish sufficient connection to the forum country¹⁵. Thus, online copyright infringement can still be found under multiple national laws and the legal uncertainty problem is barely limited.

¹¹ The so called “Bogsch theory”.

¹² Certainly, the choice of right holder is limited by jurisdictional rules. However, they normally allow plaintiffs to sue under the law of the country of the “harmful event”, which would normally coincide with the “place of infringement”, *see, e.g.*, art. 5(3) of Council Regulation (EC) No [44/2001](#) of 22 December 2000 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (Brussels I), OJ L 12, 16.1.2001, p. 1–23.

¹³ Joint Recommendation Concerning Provisions on the Protection of Marks, and Other Industrial Property Rights in Signs, on the Internet, adopted on September 24 to October 3, 2001 (hereinafter – 2001 WIPO Recommendation).

¹⁴ *See* 2001 WIPO Recommendation, art. 2 (“the use of a sign on the Internet shall constitute use in a Member State for the purposes of these provisions, only if the use has a commercial effect in that Member State (...”).

¹⁵ German courts set a rather high market effect threshold in trademark cases, however, a low threshold in copyright cases, *see* German Supreme Court decision of 13 October 2004 – I ZR 163/02 *Hotel Maritime*, 5 GRUR Int. 433 (2005) (in a trademark infringement case, court found no sufficient connection to Germany, even though the website was in German and targeted *inter alia* German audience); *cf.* Appeal Court of Jena decision of 27 February 2008 – 2 U 319/07 *Thumbnails*, MMR 408 (2008) (Germany) (German law was applied on the basis that defendant displaced the reconfiguration of the pictures into the thumbnails in the hit list of its search engine in Germany).

Moreover, despite often reiterated territorial nature of copyright, the remedies granted on the basis of a single applicable national law often have extraterritorial effects – national injunction often leads to the overall closure of the website; damages are often calculated on the basis of overall access numbers despite regardless of where the access originates from. This may lead to problems of conflicting or overlapping remedies. For instance, an injunction granted under the law of one country may prevent the conduct which is legitimate in another country (conflicting injunctions problem)¹⁶. Alternatively, when the conduct is illegal in several countries and the courts grant damages independently from each other, the overall damage granted may eventually exceed the actual harm (cumulative damage problem)¹⁷. Certainly, the courts could try to limit the remedies to a specific country (e.g. by ordering the application of measures limiting geographical access to the website or calculating damages on the basis of local access figures). Even if this becomes ever more technologically possible and economically reasonable (which may take some time), it is questionable if such “reterritorialization” of remedies would be suitable in all cases. For instance, this would require right holders even in obvious mass-scale infringement (“piracy”) cases to prosecute the infringer under the law of each protecting country separately.

In sum, territorial approach and *lex loci protectionis*, as currently applied in court practice, has led to the imbalance of interests of parties – they enable right holders to claim infringements under more protective laws and, despite the formally valid territoriality principle, acquire remedies with extraterritorial effects. Meanwhile Internet users (both ISPs and consumers) are being subject to numerous applicable laws and face the problem of conflicting or overlapping remedies. The following parts will analyze whether recent ALI and draft CLIP Proposals help to reestablish the necessary balance of interests.

¹⁶ E.g. in *National Football League* case the injunction of broadcasting in USA prevented the legitimate reception of signals in Canada, see *National Football League v. PrimeTime 24 Joint Venture*, 211 F.3d 10 (2nd Cir. 2000) (USA); in Internet, a private user condemned for sharing files under one law will have to abandon the activity overall, even if the conduct could be legal in some of the countries where the shared files had been accessed.

¹⁷ E.g. in *Sender Felsberg* case, collecting societies in Germany and France independently requested royalties for the same broadcasting conduct (even though there were no receptions by public in Germany), see Supreme Court decision of 7 November 2002 - I ZR 175/00 *Sender Felsberg*, GRUR Int. 470 (2003) (Germany) ; on the Internet, a similar problem would arise if a website is made available in several countries and the website operator has to pay separate royalties to different national collecting societies.

ALI and CLIP Proposals

After the Hague Convention on rules of jurisdiction and recognition of judgments¹⁸ failed, the American Law Institute started working on the Principles on Jurisdiction, Applicable Law, and Recognition and Enforcement of Judgments in Intellectual Property (ALI Principles)¹⁹, which were issued in 2008. In 2009 a preliminary draft of the European counterpart was made available by Max Planck Group for Conflicts of Laws and Intellectual Property (CLIP Proposal)²⁰. None of them have a binding legal value²¹, rather, they both intend to provide guidelines for courts, legislative bodies or international organizations on international private law issues in cross-border intellectual property disputes²². Taking into account that both projects involved numerous internationally recognized scholars and practitioners from various countries and they are the first international initiatives of such an extent²³, they may have a far reaching international impact.

Although the ALI and CLIP Proposals represent different – common and continental law – traditions, they have resulted in rather similar set of rules. As far as law applicable to copyright infringements is concerned, both Proposals, firstly, retain *lex loci protectionis* as a main applicable law rule²⁴. Thereby, both groups reaffirm the remaining relevance of

¹⁸ For a preliminary draft of Hague Convention on Jurisdiction and Enforcement of Judgments see <http://www.state.gov/www/global/legal_affairs/991030_forjudg.html> [accessed on 2 July 2009].

¹⁹ American Law Institute, Intellectual Property: Principles governing Jurisdiction, Choice of Law and Judgments in Transnational Disputes (American Law Institute Publishers, St Paul, MN 2008).

²⁰ Group on Conflicts of Laws in Intellectual Property (CLIP), *Principles for Conflicts of Laws in Intellectual Property, Second Preliminary Draft of 6 June 2009*, available at <www.cl-ip.eu> [Accessed on 1 July 2009] (CLIP, Second Draft, 2009); the newest Third Draft of 1 February 2010 has not been made publicly accessible, thus, the Second Draft will be used as a basis for this paper.

²¹ However, ALI Restatements of Law are an important secondary source of law in US court practice; the ALI Principles have already been mentioned in *e.g. Fairchild Semiconductor Corp. v Third Dimension (3D) Semiconductor*, Decision of 10 December 2008 by District Court of Maine, Civil No. 08-158-P-H (USA); *City of New York v A-1 Jewelry and Pawn Inc.*, 247 F.R.D. 296, 337-338 (E.D.N.Y. 2007).

²² See CLIP Proposal, Second Draft, Preamble; ALI Principles, § 102.

²³ Similar projects have been developed in Japan and Korea; for a Japanese version see Transparency Proposal on Jurisdiction, Choice of Law, Recognition and Enforcement of Foreign Judgments in Intellectual Property, available at <<http://www.tomeika.jur.kyushu-u.ac.jp/ip/proposal.htm>> [accessed 21 December 2009]; for a comparison of all three proposals see Basedow, Jürgen, Toshiyuki Kono & Metzger, Axel, *Intellectual Property in the Global Arena: Jurisdiction, Applicable Law and the Recognition of Judgments in Europe, Japan and the US* (Mohr Siebeck 2010).

²⁴ ALI Principles, § 301; CLIP Proposal, Second Draft, art. 3:102.

territorial approach despite the ever increasing globalization and international harmonization of copyright laws. The Proposals also constitute the first attempts at the international level to explicitly formulate the *lex loci protectionis* rule and define its scope. Secondly, both Proposals suggest similar “ubiquitous infringement” rules devoted to online infringements²⁵. Thirdly, they introduce a limited party autonomy principle in infringement cases²⁶. Such party autonomy has not existed in practice²⁷ and, thus, should be welcomed as a step towards higher efficiency of proceedings in cross-border cases. The Proposals however differ on the most sensitive issue of initial ownership²⁸. As another difference, CLIP Proposal incorporates a modified market effect rule – the so called “*de minimis*” rule. It allows finding the infringement under the law of specific state only when the defendant has “substantially acted” or his/ her conduct has led to the “substantial effects” or was directed to that state²⁹. ALI Principles do not contain any similar explicit provision³⁰.

The following paragraphs will focus on the question whether the ubiquitous infringement rule proposed by the ALI and CLIP Groups ensures the balance of the interests of right holders and users, which distortion has been earlier demonstrated. After an overview of main features of the ubiquitous rule, more attention will be given to its applicability, the closest connection rule and an exception to it.

Ubiquitous infringement rule: main features

In both ALI and CLIP Proposals the ubiquitous infringement rule contains three main parts³¹. Firstly, both Proposals subject ubiquitous infringements to the so called “closest connection” rule. More specifically, the ALI Principles subject the ubiquitous

²⁵ ALI Principles, § 321; CLIP Proposal, Second Draft, art. 3:603.

²⁶ ALI Principles, § 302; CLIP Proposal, Second Draft, art. 3:605.

²⁷ It was explicitly prohibited in Germany, Austria as well as under the Rome II Regulation, art. 8(3).

²⁸ ALI Principles adopts the universality approach, whereas CLIP Proposal departs from the territoriality approach, *see* ALI Principles, § 313; CLIP Proposal, Second Draft, art. 3:201.

²⁹ CLIP Proposal, Second Draft, art. 3:602.

³⁰ Interestingly, in the ALI Principles, a similar market effect rule was suggested in the Preliminary Draft as a main applicable law rule for intellectual property infringements (*i.e.* instead of *lex loci protectionis*), *see* ALI Principles, Preliminary Draft, § 301(2), *in* Jürgen Basedow et al. (eds.), *Intellectual Property in the Conflicts of Laws 229-250* (Mohr Siebeck 2005).

³¹ *See* annex to this paper for the exact citation of articles.

infringement to the law or laws having a “close connection” to the dispute³², whereas the CLIP Proposal refers to the law having the “closest connection”³³. Secondly, each Proposal provides for an exemplary list of factors on which basis the “close/closest connection” is to be determined. ALI Principles include party-neutral broad criteria, such as parties’ residence, the pre-existing relationship between parties, the extent of the activities and the investment of the parties as well as the place of affected markets³⁴. In a slightly different manner, the CLIP Proposal contains factors which are more infringer-orientated and slightly narrower defined³⁵. Thirdly, the exception to the closest connection rule is formulated. Disregarding slight differences in the formulation³⁶, both Proposals essentially allow any party to prove that the law of other country connected to the dispute would lead to another solution, which should be taken into account when determining the remedies. This exception allows parties to retreat back to the territorial approach and apply separate national laws when they contain provisions favorable to any of the parties (thereafter – “retreat to territoriality” exception).

The expected effect of the rule could be demonstrated by the following example. The defendant residing in Germany made available on a German-language website short extracts of a musical work belonging to the plaintiff residing in the USA. The court applied German law as the law having the closest connection with the dispute (because defendant resides in Germany; defendant’s physical conduct took place in Germany; and website targeted primarily the German market) and granted an international relief. The defendant however proved that the use of short extracts of a work constitutes a fair use in the USA and the court limited the remedies accordingly – the injunction and damages did not apply in US territory.

Applicability

The first issue that deserves a closer look is the scope of application of the rule. Under the

³² ALI Principles, § 313 (1).

³³ CLIP Proposal, Second Draft, art. 3:201(1). *Cf.* CLIP Proposal, Third Draft (unpublished), art. 3:201(1) (refers to a “law having a closest connection”).

³⁴ ALI Principles, 313 (1) (a-d).

³⁵ *See, e.g.*, art. 3:603(2)(a) (“infringer’s habitual residence”) or (b) (“infringer’s principal place of business”).

³⁶ Second sentence of the CLIP Proposal provides with a more complicated formula, which, however, seems to eventually lead to the same legal consequences as the formulation in the ALI Principles.

ALI Principles, the ubiquitous infringement rule “may” be applied when two conditions are met – when there is a “ubiquitous activity” and “when the laws of multiple States are pleaded”³⁷. Similarly CLIP Proposal stipulates that the rule “may” be applied in respect of infringement occurring over “ubiquitous media” when the infringement “arguably takes place in every state where the signals can be received”³⁸. This non-compulsory application of the rule and two cumulative requirements (ubiquitous conduct/media and worldwide/multiple-state infringement) may be of more significance than may seem from the first glance.

Cumulative conditions: Ubiquitous conduct and worldwide infringement

First of all, it is questionable if all online infringements would meet both conditions set in the ALI and CLIP Proposals. The requirement of ubiquitous, or “instantaneous and worldwide”³⁹ conduct/media was meant to exclude offline multi-state infringements from its scope⁴⁰. However, one could wonder whether it could lead to the exclusion of some online cases. For instance, there are websites which limit access geographically and, thus, they are not accessible worldwide⁴¹ – will they qualify as “ubiquitous conduct”? Also, worldwide/multi-state infringement requirement suggests that the only cases that are covered are those where the violation of copyright is arguably occurring in each country worldwide (or in multiple states). There will be numerous cases where such a worldwide/multi-state infringement is not obvious – *e.g.* because of different scope of protection in different countries⁴². Also, when the case concerns Internet-specific uses (*e.g.* thumbnails, search of snippets from books) (il)legality of which has not yet been clarified in many jurisdictions, the court is unlikely to assume “worldwide infringement”.

³⁷ ALI Principles, §321(1).

³⁸ CLIP Proposal, Second Draft, art. 3:603(1).

³⁹ *Cf.* ALI Principles, Discussion Draft, 2006, §321, available (for sale) at <www.ali.org> [accessed on 12 October 2009] (“instantaneous and worldwide”).

⁴⁰ Interestingly, at the initial stage of the ALI Project, departures from territoriality principle were proposed for all multi-state (not only online) infringements, *see* Ginsburg, Jane C., *Private International Law Aspects of the Protection of Works and Objects of Related Rights Transmitted Through Digital Networks*, WIPO/PIL/01/2 of 18 December 2000, p. 11-12 available at <www.wipo.int> [Accessed on 13 October 2009].

⁴¹ *E.g.* some websites or content are not accessible in all countries because they are blocked by states (*e.g.* Google, YouTube, Wikipedia are not accessible in China) or by operators themselves (*e.g.* E-Bay blocks the sale of Nazi memorabilia items in Germany in order to comply with German law).

⁴² *E.g.* copyright protection lasts 50 years in some countries and 70 years in others; not all countries recognize the protection of performers’ rights, *etc.*

Thus, the ubiquitous infringement rule is likely to apply only to obvious online infringement (“piracy”) cases.

“May”, not “shall”

Secondly, the use of “may” and not “shall” in the wording of the rule suggests that the ubiquitous infringement rule, even if all requirements are met, will not necessarily apply to online cases. This raises a question as to who may decide on the applicability of the rule – the court or (also) the plaintiff (normally – right holder). Neither of the proposals gives an explicit answer. However, it is likely that the rule will be applied only under the request of the plaintiff – if the right holder prefers to prosecute an online infringement in a single state, he/she shall not be prevented from doing so. Obviously, the right holder will request to apply the ubiquitous infringement rule only if it would lead to a more favorable solution than other rules.

Lex loci protectionis and de minimis rules – for online cases?

When the ubiquitous infringement rule is not applied (because any of two requirements is not met or because the right holder does not express a wish to apply it), the next question is what rule applies to online infringements in these cases. It seems that *lex loci protectionis* and *de minimis*, as generally applicable rules, come into play⁴³. As argued earlier, their application is generally more advantageous for the right holders – they can choose to claim the most favorable law and acquire the remedies which, despite formally valid territoriality principle, may have extraterritorial effects in online disputes. For the users this means that they could be sued under (almost) any law worldwide and decisions adopted by several courts simultaneously may lead to conflicting or cumulative remedies. As far as cumulative and conflicting remedies are concerned, neither Proposal seems to suggest specific solutions to this problem⁴⁴. Interestingly, already the 2001 WIPO Recommendation on use of signs online has devoted much attention to extraterritorial

⁴³ Alternatively, the parties are allowed to choose the applicable law; however, the choice is limited only to remedies, *see* ALI Principles, §302; CLIP Proposal, Second Draft, art. 3:605.

⁴⁴ CLIP Proposal reiterates territoriality in respect of injunctions in art. 2:601(1). It is however doubtful whether this will be sufficient – the article neither covers damages, nor it gives guidelines how the effect of injunction should be limited territorially when the restriction of geographical access of the website is not feasible. Also, courts have been up to now bound by territoriality principle but often ignored it in online infringement cases.

effects of remedies⁴⁵. In regard to multiple applicable laws problem, as mentioned above, the courts have already tried to limit it by developing a market effect rule. Could this problem be solved with the help of a similar *de minimis* rule as found in the CLIP Proposal⁴⁶? As discussed above, the market effect rule has not significantly limited the number of applicable laws – national courts easily establish at least certain connection to the forum and apply forum law. *De minimis* rule, as formulated in the CLIP Proposal, seems to set an even lower threshold. Firstly, it allows finding the infringement not only where the significant *effect* is established but also where there is a significant *conduct* in the country. Thus, if the person uploaded content from country A to the website accessible only in country B (thus – no direct effects in country A), the infringement could still be found in country A because the significant conduct – uploading act – took place there. Secondly, even if both the conduct and effect in a specific country are minimum, the court may derogate from the *de minimis* rule and still apply the law of that country “when reasonable under the circumstances of the case”⁴⁷. As a result, the *de minimis* rule is likely to cover only clear “overspill” cases⁴⁸, whereas most online uses will be still potentially subject to multiple applicable laws.

Thus, because of a narrow application of ubiquitous infringement rule, it is likely that a problematic *lex loci protectionis* will still apply to many online copyright cases, and the *de minimis* rule is even less likely to diminish its problems.

Secondary infringement – unsolved issue

In addition, it is not clear how ubiquitous infringement rule would be applied to secondary (or indirect) infringement, which is especially relevant in cases of ISP liability. Traditionally, the courts tend to subject secondary infringements to the law regulating the

⁴⁵ 2001 WIPO Recommendation, arts. 13-15.

⁴⁶ See CLIP Proposal, Second Draft, art. 3:602: “De minimis rule: (1) A court applying the law or the laws determined by Article 3:601 shall only find for infringement if (a) the defendant has substantially acted or has taken substantial preparatory action to initiate or further the infringement in the State or the States for which protection is sought, or (b) the activity by which the right is claimed to be infringed has substantial effect within, or is directed to the State or the States for which protection is sought. (2) The court may exceptionally derogate from that general rule when reasonable under the circumstances of the case.”

⁴⁷ CLIP Proposal, Second Draft, art. 3:602(2).

⁴⁸ E.g., a website clearly targets only Lithuanian consumers (a website is provided in Lithuanian, the currency used is Lithuanian Litas); it has been however accessed by two Lithuanians living in Germany. German court could find that the infringement in Germany is *de minimis* and deny remedies under German law.

main (primary) infringement⁴⁹. This practice becomes especially problematic in case of ISP liability. Normally, there are multiple primary infringements by Internet end users, which might be subject to different laws. It is thus not clear the law of which primary infringement will be applied to the secondary infringement. Neither Proposal however clarifies whether secondary infringements “follow” primary infringements⁵⁰ or whether they could be autonomously subject to the ubiquitous infringement rule⁵¹.

Overall, the scope of application of the ubiquitous infringement rule seems to be rather narrow and not entirely clear. It is likely to be applied only when the plaintiff claims it – this choice is normally reserved for the right holder, unless the alleged infringer refers to the court first (e.g. with a non-infringement claim). Also, it is not clear whether all online cases will meet the two requirements of ubiquitous media/conduct and worldwide/multi-state infringement. If these requirements are not met, online infringement will be subject to the traditional *lex loci protectionis* rule, which has been favoring right holder and causing the user numerous problems, such as multiple applicable laws and cumulative or conflicting remedies. The market effect rule was supposed to limit the former problem, however, *de minimis* rule, as suggested in CLIP Proposal, is likely to have even fewer positive effects in regard to the multiple applicable law problem than could be expected from the market effect rule. In addition, the law applicable to secondary infringements remains unanswered in both Proposals. Thus, it is unclear if and how ubiquitous infringement rule will be applied in respect of ISPs which have to deal mainly with secondary liability claims.

⁴⁹ See Germany: German Supreme Court decision of 16 June 1994 – I ZR 24/92 *Folgerecht bei Auslandsbezug*, 11 GRUR, 798 (1994) (organization of resale in Germany is not sufficient to establish the infringement under German copyright law; *i.e.* organization of resale is subject to the same law which regulates resale itself); USA: *Metzke v. May Dep’t Stores*, 878 F. Supp. 756 (1995) (USA) (offshore copying will infringe US law if the defendant knew or should have known that copies would be sold in the USA); Denaro, James, *Choice of Law Problems Posed by the Internet and by Satellite Broadcasting*, 1(3) *Tulane Journal of Technology and Intellectual Property* 1, para. 51 (2000).

⁵⁰ *But see* ALI Principles, §301, comment h (“facilitation of the infringement” is subject to the law of the primary infringement – the comment, however, concerns only *lex loci protectionis*).

⁵¹ For further discussion see Dinwoodie, Graeme B. & Dreyfuss, Rochelle & Kur, Annette, *The Law Applicable to Secondary Liability in Intellectual Property Cases*, 42 *New York University Journal of International Law and Politics* 201 (2010), available at SSRN: <<http://ssrn.com/abstract=1502244>> [accessed on 2 December 2009].

Close/closest connection rule

The second issue worth consideration is a closest connection rule, a core of an article on ubiquitous infringement. It subjects the overall ubiquitous infringement to a single law with the closest connection. Closest connection is to be determined taking into account all relevant factors – ALI and CLIP Proposals provide only with an exemplary list of them⁵². With this rule, ALI and CLIP Groups sought, firstly, to enable the application of a single law (universality approach) to the entire online infringement and acquire worldwide remedies. Secondly, they intended to avoid the situation where the user moves to the country with the least protection (“forum shopping”), which would lead to the overall decrease of copyright protection (“race to bottom”). These problems are normally associated with other doctrines that follow universality approach⁵³.

Single applicable law – not really?

With regard to the first goal, the application of a single law to the entire online infringement is generally advantageous both for the right holders and users. For the former it means the acquisition of worldwide remedies on the basis of a single law. For the latter, it eliminates the problem of multiple applicable laws and, simultaneously, the danger of cumulative or conflicting remedies granted under different laws.

It should be noted however that both Proposals refer to “the law or laws of the State or States” instead of “a (single) law”⁵⁴. The effect of this formulation is not entirely clear. Firstly, such wording may merely mean that the court can also apply the law as invoked

⁵² The closest connection rule was inspired by the “most significant relationship” rule as found in §145 and §188(1) of Restatement of the Law (Second), Conflict of Laws 2nd (American Law Institute 1971); and §145 of Restatement of the Law (Third) of Foreign Relations Law of the United States (American Law Institute 1987).

⁵³ One of them is a so called “emission” theory – it subjects satellite broadcasting to a single law of the country where the signal is emitted; it has been initially implemented in art. 2(b) of Council Directive 93/83/EEC of 27 September 1993 on the coordination of certain rules concerning copyright and rights related to copyright applicable to satellite broadcasting and cable retransmission, OJ L 248, 06.10.1993, p. 15-21. The other is a “country of origin” (or “country of establishment”) doctrine (*Herkunftslandsprinzip*) which subjects online conduct to a single law of the country where the service provider is situated; it has been implemented in the art. 3 of the Directive 2000/31/EC of the European Parliament and of the Council of 8 June 2000 on certain legal aspects of information society services, in particular electronic commerce, in the Internal Market, OJ L 178, 17.7.2000, p. 1–17 (copyright and related rights are however excluded from its scope, *see* Annex to the Directive).

⁵⁴ In the CLIP Proposal, Third Draft (unpublished), art. 3:201(1), the wording was changed into “a law”.

by parties under the “retreat to territoriality” exception⁵⁵. However, such possibility is implied by the exception itself and its mentioning in the closest connection rule were both redundant and may be contradictory⁵⁶. Secondly, it could mean that different issues (existence, scope, duration, remedies, etc.) may be subject to different laws (so called “*depeçage*”). However, such *depeçage* is possible when applying a similar rule found in the US Restatement of the Laws (Second), although it refers only to “a law”⁵⁷. A third possibility seems to be most likely – if a dispute has a close connection with several countries several laws would be applied. Such open formulation is not surprising taking into account the innovative nature of the rule. However, this at the same time weakens the potential effectiveness of a single law approach – it remains possible that several laws will apply, though it can not be foreseen in what cases and which laws.

Furthermore, ALI Principles refer to “close” instead of the “closest” connection⁵⁸. Many laws may have a “close” connection. It is likely that most courts, which find sufficient grounds to establish jurisdiction over the dispute, would also find that forum law has a sufficiently “close” connection to the dispute⁵⁹. This allows right holders, when choosing a court, to simultaneously choose the applicable law. Meanwhile users have to further simultaneously adhere to all laws potentially connected to the dispute.

Exemplary list of connecting factors

As far as potential dangers of “forum shopping” or “race to bottom” are concerned, the close/closest connection rule doubtlessly eliminated them. The law with the close/closest connection is determined taking into account all relevant factors; the exemplary factors are defined broadly, especially in the ALI Principles⁶⁰. Thus, the potential infringers can not manipulate the applicable law by changing their place of establishment or online conduct as those are not the exclusive factors which determine the law applicable to the dispute.

⁵⁵ See discussion below.

⁵⁶ The “retreat to territoriality” exception allows taking into account a differing law only in respect of remedies; such limitation can not be found in the wording of the closest connection rule.

⁵⁷ See Restatement of the Law (Second), supra note 52, §145, comment on Subsection (1)(d).

⁵⁸ Cf. CLIP Proposal, Third Draft (publicly unavailable), art. 3:201(1) (refers to the “closest connection”).

⁵⁹ Such practice currently prevails.

⁶⁰ E.g. ALI Principles, §321(1)(c) (“The extent of the activities and the investment of the parties”).

On the other hand, an exemplary and non-mandatory list of factors contains a problem of legal uncertainty and lack of foreseeability for both parties. Right holders can not exactly foresee which law the court will apply. However, as mentioned above, if only a “close” connection is required, the courts will most often apply forum law, and it is the right holder who normally chooses the forum⁶¹. The situation of users is more problematic. From the exemplary list of factors they can not foresee the law applicable to the dispute. Such legal uncertainty and lack of foreseeability hampers the development of legitimate online services, as well as reduction of online piracy⁶². It is worth noting that in its early drafts, CLIP Proposal contained a “defendant’s residence” rule⁶³. However, it was suggested only as a “last resort” when the law with the “closest connection” can not be determined, not as a default rule. It is thus doubtful if it could have brought more legal certainty. In comparison, under continental tradition, the torts are normally subject to specific well-defined rules, whereas the “closest connection” rule serves as an exception⁶⁴.

Thus, the closest connection rule is likely to facilitate the enforcement of ubiquitous infringements by formally enabling right holders to acquire the worldwide relief under a single (most likely, forum) law and simultaneously preventing the potential “forum shopping” by users and “race to bottom” of copyright protection. Although such a single-law (or universality) approach could be generally advantageous for users (no multiple applicable laws leading to cumulative or conflicting remedies), the loose formulation of the closest connection rule (“law and laws” and “close connection”) and a merely exemplary list of broad connecting factors do not ensure a needed legal certainty and foreseeability.

“Retreat to territoriality” exception

⁶¹ Interestingly, ALI Principles used to contain *lex fori* as a “last resort” rule, see ALI Principles, Discussion Draft, 2006, supra note 39, §321(2).

⁶² The connection between the development of legitimate online services and reduction of online piracy has been highlighted also by the Council of European Union, see Council Conclusions on the development of legal offers of online cultural and creative content and the prevention and combating of piracy in the digital environment of 20 November 2008, available at <http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/en/educ/104198.pdf> [accessed on 17 May 2009].

⁶³ See art. V.3.(3) of CLIP, Possible Structure of the Principles, Draft of 2008 (unpublished).

⁶⁴ Cf. Rome II Regulation, art. 4.

Finally, both Proposals contain an exception to the closest connection rule. In short, any party may prove that the law of another state (than the one which law has the closest connection) provides with the solution that differs from that obtained under the law(s) chosen to apply to the case as a whole; this differing law should be taken into consideration when determining the remedy⁶⁵. With this rule, both ALI and CLIP Group assumingly intended to preserve territorial interests of the states. Importantly, diverging national copyright laws may be raised only on the initiative of any of the parties and may influence only the remedies, however, not the liability issues. It is true that this exception “might lead to as much litigation over the content of foreign law as would serial application of the laws of each State for which protection is sought”⁶⁶. However, the legitimate interest of states to enforce differing territorial laws remains in online disputes. With regard to the interests of parties, it seems that the exception primarily serves the interests of the users. When a plaintiff (normally – right holder) requests a worldwide relief under a single applicable law, a defendant (normally – user) is able to invoke a law that leads to a different solution, obviously, favoring the defendant. A similar possibility had not existed before. Although defendants (users) were able to dispute the applicability of the forum law in respect of uses originating in foreign countries, courts have not paid much attention to such arguments and applied forum law⁶⁷. Also, this “retreat to territoriality” exception decreases the danger of conflicting or overlapping remedies. When the law different from the one applied by the court leads to different remedies, the court is obliged to take measures in order to avoid conflicting remedies (e.g. not to extend injunction to a particular country).

The rule should thus be welcomed. Only two minor points deserve further consideration.

“Any party”

It may seem that the exception worsens the situation of the right holder – he/she may not be sure which laws the defendant will invoke for its defense; the invocation of other laws will prolong the enforcement proceedings. On the other hand, as the rule refers to “any

⁶⁵ See ALI Principles, §321(2); CLIP Proposal, Second Draft, art. 3:603(3).

⁶⁶ See ALI Principles, Reporters’ Notes, p. 156.

⁶⁷ See, e.g., District Court decision *Sonofon A/S (formerly DMT2 A/S) v IFPI Danmark*, ECDR 10, 16 (2009) (Denmark) (Internet access provider was ordered by Danish court to terminate the access to the Pirate Bay website despite the fact that the persons behind the website were domiciled in Sweden).

party”, a right holder could equally make use of the exception. For instance, if the court decides to apply German law as the law with the close/closest connection, the right holder may still claim the statutory damages under the US law in respect of the US part of the infringement.

Equal treatment of parties to the dispute is generally understandable. The right holder, as an injured party, can not be put in a less favorable position than the user, who causes the injury⁶⁸. On the other hand, the above analysis has shown that ubiquitous infringement rule is more advantageous to the right holder in numerous aspects. For instance, a right holder may choose the forum; and the court will often find forum law as “closely connected” to the dispute – it is very likely taking into account the loose formulation of the close/closest connection rule and an exemplary list of flexible connecting factors. Furthermore, if a right holder is concerned that the court will find the closest connection to the law not favorable to the right holder, he/she may choose to apply *lex loci protectionis* instead, which would still often lead to extraterritorial effects of the remedies. Thus, it could be disputed whether the right holder needs any additional guarantees proposed by the “retreat to territoriality” exception.

“Prove”

The last point concerns the term “prove”. Both Proposals allow an interested party to “prove” that another law leads to a differing solution. Such formulation may be seen as shifting the burden of proof from the right holder to the user. Under the *lex loci protectionis* rule, it has been the right holder who has to prove that the infringement takes place in each relevant country. Under the ubiquitous infringement rule, the worldwide/multi-state infringement is assumed, whereas the “retreat to territoriality” exception seems to set a duty for the defendant to prove that there is no infringement in certain countries (or that the liability is limited, less stringent remedies are available, etc.). Such shift of burden might be reasonable in obvious “piracy” cases. However, it may be questionable in cases where the user is acting in a good faith. Thus, it may be considered if the wording “prove” should not be changed to a more neutral term (such

⁶⁸ Cf. Kegel, Gerhard & Schurig, Klaus, Internationales Privatrecht 725 (9. Auflage, C.H. Bech’sche Verlagsbuchhandlung 2004).

as “claim”). Then, the allocation of the burden of proof would be left to the discretion of courts in each particular case.

Conclusion

The application of territoriality principle and *lex loci protectionis* rule to online copyright infringement cases has led to the distortion of balance of interests of parties. The current practice allows right holders to choose the most favorable law to claim the infringement and, despite the formally recognized territoriality principle, to get a relief often having extraterritorial effects. Meanwhile users have to simultaneously adhere to multiple potentially applicable laws and face the danger of conflicting or overlapping remedies. Although the market effect rule, which is getting more popular in courts, may mitigate the negative effects, it does not seem to be a sufficient solution.

ALI and CLIP Proposals, by developing a “ubiquitous infringement” rule, seek for a compromise between territoriality and universality approaches. It is however questionable if the balance of interests of right holders and users is properly reestablished. The ubiquitous infringement rule enables right holders to acquire, under a single applicable law, an international relief in online cases. Also, the dangers of a single-law approach (such as “forum shopping” by users leading to “race to bottom” of copyright protection) have been eliminated by implementing a flexible closest connection rule with an open-ended list of connecting factors. In addition, if the right holders are unsure about applying the ubiquitous infringement rule (e.g. because it is uncertain which law will be found as having the “close/closest” connection), they are left with the possibility to opt for the application of traditional *lex loci protectionis* rule – it has allowed right holders to obtain national remedies often having extraterritorial relief, and this has not been effectively limited by any of the Proposals. Finally, it is true that the efficiency of enforcement procedure may decrease if the users invoke another differing law under the “retreat to territoriality” exception. However, this exception may be equally used by the right holder, e.g. in order to obtain more extensive damages available in some jurisdictions.

The respect of interests of the users – both ISPs and consumers – seems to cause more problems. Generally, the single applicable law is of interest for the users since it eliminates the problem of multiple potentially applicable laws as well as the danger of cumulative or conflicting remedies. However, the two cumulative conditions (ubiquitous conduct/media and worldwide/multi-state infringement) make it unclear to which online cases the rule is applied; the uncertainty is increased by subjecting the application of the rule to the choice of the plaintiff (right holder). It also remains undecided whether and how ubiquitous infringement rule applies to secondary liability. Furthermore, the flexible close/closest connection rule does not allow users to foresee what law will be applied to the dispute. Thus, different laws having any connection to the dispute should still be taken into consideration when developing online business. Certainly, the “retreat to territoriality” exception may help users to partly defend their interests and diminish the danger of conflicting or cumulative remedies. However, it seems to transfer a duty of proof from the right holder on the user.

These issues could be further discussed when considering the possibility to merge both projects into a single international proposal.

Annex

ALI Principles

§321. Law of Laws to Be Applied in Cases of Ubiquitous Infringement

- (1) When the alleged infringing activity is ubiquitous and the laws of multiple States are pleaded, the court may choose to apply to the issues of existence, validity, duration, attributes, and infringement of intellectual property rights and remedies for their infringement, the law or laws of the State or States with close connections to the dispute, as evidenced, for example, by:
 - (a) Where the parties reside;*
 - (b) Where the parties' relationship, if any, is centered;*
 - (c) The extent of the activities and the investment of the parties; and*
 - (d) The principal markets toward which the parties directed their activities.**
- (2) Notwithstanding the State or States designated pursuant to subsection (1), a party may prove that, with respect to particular States covered by the action, the solution provided by any of those States' laws differs from that obtained under the law(s) chosen to apply to the case as a whole. The court shall take into account such differences in determining the scope of liability and remedies.*

Draft CLIP Proposal

Article 3:603: Ubiquitous Infringement

- (1) In disputes concerned with infringements carried out through ubiquitous media such as the internet, the court may apply the law or the laws of the State or the States having the closest connection with the infringement, if the infringement arguably takes place in every State in which the signals can be received.*
- (2) In determining which State has the closest connection with the infringement, the court shall take all the relevant factors into account, in particular the following:
 - (a) the infringer's habitual residence*
 - (b) the infringer's principal place of business;*
 - (c) the place where substantial activities in furthering of the infringement in its entirety have been carried out;*
 - (d) the place where the harm caused by the infringement is substantial in relation to the infringement in its entirety.**
- (3) Notwithstanding the law applicable pursuant to paragraph 2, any party may prove that the rules applying in a State or States covered by the dispute differ from the law applicable to the dispute in aspects which are essential for the decision. The court shall apply the different national laws unless this leads to inconsistent judgments, in which case the differences shall be taken into account in fashioning the remedy.*