

Licences and assignments of intellectual property rights under the Rome I Regulation

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Abstract

Licences and assignments of intellectual property rights are contracts in relation to intellectual property and as such they fall within the scope of the new Rome I Regulation. This article examines how the rules of the Rome I Regulation apply to these contracts and how these rules differ from those contained in the Rome Convention 1980 on the law applicable to contractual obligations. Before doing so the article examines the distinction between the intellectual property right as such and contractual issues relating to the intellectual property right. This classification issue is of vital importance in determining which issues come within the scope of the Rome I Regulation.

Introduction

This contribution looks at the implication of the entry into force of the Rome I Regulation¹ on intellectual property licences and assignments. It is therefore obvious that the situation that existed under the provisions of the Rome Convention 1980 on the law applicable to contractual obligations² and the changes that occur as a result of the adoption of

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¹ Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations (Rome I), [2008] OJ L 177/6.

² [1980] OJ L 266/1. The analysis in this paper draws significantly on chapter 11 of J Fawcett and P Torremans, *Intellectual Property and Private International Law*, Clarendon Press (1998).

the Regulation will take centre stage. However, before turning to these core issues one should remind oneself that in relation to intellectual property rights the distinction between issues that concern the right itself (and that are non-contractual) and issues that concern intellectual property contracts is not always obvious. Issues that relate to the right itself are traditionally governed by the *lex loci protectionis*.³ In the light of the non-obviousness of the distinction between the right and the contractual issues one could ask whether a single law should not be applied. Should all the contractual issues then also be governed by the law that governs the right as such? On the other hand, there are no obvious reasons why, in relation to intellectual property rights, the contractual freedom of the parties to choose the applicable law should not be respected and the Giuliano/Lagarde Report to the Rome Convention clearly assumes that the convention will apply to intellectual property contracts, whilst the non-contractual questions will remain under the law governing the intellectual property right itself.⁴ The distinction will therefore have to be made, even if elements of both types of issues will often arise in the same case, and this will give rise to difficult questions of characterisation. Or as we put it in the CLIP comments on the Rome I proposal:

“Which aspects of a contract relating to intellectual property right are contractual by nature and thus fall under the scope of the *lex contractus*? Which issues are on the other hand governed by the law that governs the intellectual property right itself and are these issues still outside the scope of the instrument? These questions are of particular importance when it comes to issues which concern the intellectual property right itself but which are closely linked to the respective contracts like the transferability of the right, the conditions under which licenses can be granted and

³ See J Fawcett and P Torremans, *Intellectual Property and Private International Law*, Clarendon Press (1998), chapter 10.

⁴ Giuliano/Lagarde, Report on the Convention on the law applicable to contractual obligations, [1980] OJ C 282/1. This conclusion is also found implicitly in a case where the court determined the applicable law in the absence of a choice by the parties, see the Judgment of the Tokyo High Court of 16 September 1991 (Case NE-619/89), 24 (1993) *IIC* 391.

whether the transfer or license can be invoked against third parties. These issues do not fall under the *lex contractus*; they are governed by the law that governs the intellectual property right.”⁵

Or more precisely in relation to transferability, the parties can only transfer or assign whatever is assignable or transferable and the latter issues are not governed by the law chosen by the parties, but by the law of the protecting country.⁶ A good copyright example is the case where a French ghostwriter assigned the copyright in the book she co-authored to her co-author in a contract governed by the law of New York. The ghostwriter later claimed part of the royalties and damages for the infringement of her moral right to be identified in France where the book had been published. Various issues arise from these facts. For example, could she assign all or some of her rights? This is a non-contractual issue. What was the exact scope of the rights that were assigned? The latter issue is contractual. Could the parties then choose the applicable law or did French law apply to the publication in France and all contracts in relation to it? In this case, the Court of Appeal in Paris⁷ ruled that the parties could choose the applicable law. This meant that French law as the law of the protecting country was used to determine which rights were assignable,⁸ but the law of New York as the law of the contract governed the validity and the scope of the actual transfer.⁹

This example should not lead to the conclusion that choice of law questions only arise in the context of copyright contracts. Problems arise also in relation to industrial property rights. For example, a Swiss company has granted a trade mark licence and an exclusive

⁵ CLIP, Comments on the European Commission’s Proposal for a Regulation on the Law Applicable to Contractual Obligations („Rome I“) of December 15, 2005 and the European Parliament Committee on Legal Affairs’ Draft Report on the Proposal of August 22, 2006, 4th January 2007, see <http://www.cl-ip.eu/>. CLIP is a group of scholars in the fields of intellectual property and private international law. It was established in 2004 and meets regularly to discuss issues of intellectual property, private international law and jurisdiction. The Group’s goal is to draft a collection of principles for conflict of laws in intellectual property and to provide independent advice to European and national lawmakers. The Group is funded by the Max Planck Society.

⁶ See J Fawcett and P Torremans, *Intellectual Property and Private International Law*, Clarendon Press (1998), chapter 10, p 515.

⁷ Judgment of 1 February 1989, *Anne Bragance v Olivier Orban and Michel de Grèce* (1989) 142 RIDA 301.

⁸ Moral rights were excluded on this basis.

⁹ All pecuniary rights had been validly assigned.

distributorship to a German company for a range of diagnostic products and reagents. This licence contract covers Germany and Austria and it does not contain a clause that determines whether or not the licensee will still be entitled to a certain use of the trade mark once the agreement has been terminated. The latter issue is then to be determined according to the provisions of the applicable law.¹⁰ But is the applicable law the law of the licensor's country, that of the licensee's country or that of either of the countries to which the licence applied and where the trade mark was used?

It is to the detailed analysis of the contract choice of law rules that govern these issues that we now turn.

The applicable law

Like the Convention the Regulation may lead to the application of any law, even if that is not the law of a Contracting State.¹¹ The applicable law will, in particular, govern the interpretation of the contract, the performance of the contractual obligations, the various ways of extinguishing these obligations and the issues of the prescription and limitation of actions. The applicable law will also govern the consequences of any breach of a contractual obligation, but this will be done within the limits of the powers conferred on the court by its procedural law. The consequences of any breach will include the assessment of damages in so far as it is governed by rules of law.¹² Both the Regulation and the Convention offer two options. Article 3 allows the parties to choose the applicable law and article 4 deals with the applicable law in the absence of choice.

¹⁰ See the judgment of 22 November 1994 of the Austrian Supreme Court (Case 4 Ob 118/94), 28 (1997) *IIC* 574.

¹¹ Article 2 of the Rome I Regulation and Article 2 of the Rome Convention 1980.

¹² Article 12 of the Rome I Regulation and Article 10 of the Rome Convention 1980.

(a) THE LAW IS CHOSEN BY THE PARTIES

The Rome I Regulation contains in Article 3 the same starting point as the Rome Convention 1980 which recognises, also in its Article 3, the freedom of the parties to choose the law applicable to the contract, a principle that is recognised internationally. This rule applies equally to licences and assignments of intellectual property rights. So, in the situation where the parties make an express or implied choice of law this choice prevails and no other choice of law problem remains unsolved.¹³ The parties are free to choose any law. The applicable law does not need to have a particular connection with the contract.

According to Article 3 of the Rome I Regulation, the parties can, first of all, choose the applicable law by making an express choice of law. Such an express choice of law is clearly present if the contract stipulates, for example that it is ‘subject to’ or ‘governed by’ a particular law or that it is ‘to be construed in accordance with’ a particular law. Whether a specific clause amounts to an express choice of law is a matter of interpretation.

In the absence of an express choice, Article 3 allows the choice of the parties to be demonstrated by the terms of the contract or the circumstances of the case. Such a choice has to be demonstrated clearly¹⁴. The intention of the parties is a vital element in this respect. The court will, in the light of all the facts, have to decide whether the parties have made a real choice of law without expressly stating so in the contract. However, the court cannot infer a choice if the parties had no clear intention of making a choice.¹⁵ There are a few good examples of situations in which a choice by the parties may be demonstrated with reasonable certainty.¹⁶ Standard contracts that are known to be governed by a particular system of law are a first example. It is clear, for instance, that a Lloyd’s policy of marine insurance is

¹³ See also the decision of the German Bundesgerichtshof of 21 October 1964 [1965] GRUR Int 504.

¹⁴ It is not expected that the word ‘clearly’ that is used in the Regulation will have a different meaning in practice than the concept of ‘demonstrated with reasonable certainty’ that was found in the Convention.

¹⁵ Giuliano/Lagarde Report, n 4 above, at 17.

¹⁶ See *ibid.*

governed by English law. A second example is found in the situation where there is a previous course of dealing between the parties that involved a choice of law. This may, for instance, be the case in a master-contract or in a charterparty under which bills of lading without an express choice of law are issued. A choice of forum clause is a third example of such an implied choice of law.¹⁷ English law did always have a tendency to accept that whoever chooses the forum, also chooses the law of the forum as the applicable law. Fourthly, a reference to particular provisions of a system of law is another example of such a choice of law by the parties. The fifth and last example is when there is an arbitration clause naming the place of arbitration.

In most cases, the choice of law of the parties will cover the whole contract. However, Article 3(1) of the Rome I Regulation retains the principle of the Rome Convention 1980 that also allows the parties to select the applicable law for a part of the contract. This may lead to two situations. The parties may have chosen another law that will govern the remainder of the contract, or they may have made no choice of law at all for the remainder of the contract. The rules to determine the applicable law in the absence of a choice by the parties will apply to the remainder of the contract in the latter situation. And finally, the parties are also free to agree at any time to change the law applicable to the contract, as long as the formal validity of the contract and the rights of third parties are not adversely affected by such a change.¹⁸

Article 3 does not raise any particular problems for contracts in relation to intellectual property rights. Accordingly, our analysis will focus on licence contracts which do not contain a choice of law.

(b) THE APPLICABLE LAW IN THE ABSENCE OF CHOICE

¹⁷ See *Egon Oldendorff v Liberia Corp* [1995] 2 Lloyd's Rep. 64.

¹⁸ Article 3(2) of the Rome I Regulation and of the Rome Convention 1980.

There is a less striking similarity between Article 4 Rome I Regulation and Article 4 Rome Convention 1980, which both deal with the problem of the applicable law in the absence of a choice of law. In the Convention the criterion is that of the closest connection. The presumption of the characteristic performance, which is used to determine the closest connection is rebuttable.¹⁹

Article 4 Rome Convention provides an objective test to determine the applicable law. Its aim is to find the country with which the contract is most closely connected. The law of that country will be the applicable law. The intentions of the parties, which played a vital role under Article 3, are of no importance here. What counts are connections linking the contract to a particular country.²⁰

A real departure from the common law traditions is found in the fact that the closest connection is, at least in the first instance, not identified through the balancing of the various connecting factors. The Convention starts the identification process in Article 4(2) by applying the rebuttable presumption that the contract is most closely connected with the country in which the party that is to effect the characteristic performance has, at the time of the conclusion of the contract, its habitual residence. The habitual residence is replaced by its central administration if that party is a body corporate or incorporate, and by its principal place of business (or another place of business if the contract stipulates that performance is to be effected through that other place of business) if the party that is to effect the characteristic performance entered into the contract in the course of its trade or profession. The characteristic performance is normally identified for a certain type of contract and it is accepted that the payment of money cannot be the characteristic performance, as it is an element that is common to many types of contract.²¹

The presumption that is contained in Article 4(2) can be rebutted in two situations.

¹⁹ Articles 4(2) and 4(5) of the Rome Convention 1980 and the Giuliano/Lagarde Report, n 4 above, at 19–23.

²⁰ Cheshire and North *Private International Law*, Butterworths (12th ed, 1992), at p 487.

²¹ Giuliano/Lagarde Report, n 4 above, at 20.

These are described in Article 4(5) of the Convention. First, there will be situations in which no single characteristic performance can be determined. The second situation is where it appears from the circumstances as a whole that the contract is more closely connected with another country. In both these situations, there is a return to Article 4(1). The identification of the applicable law is then dependent upon the outcome of the balancing of the various connecting factors which will identify the country with which the contract has its closest connection. The law of that country will be the applicable law. This technique is almost identical to the old common law system that leads to the identification of the proper law of the contract. Matters such as the place of contracting, the place of performance, the places of residence or business of the parties and the nature and the subject matter of the contract resume their importance at this stage.

In exceptional circumstances, a severable part of a contract which has a closer connection with another country may be governed by the law of that country.²² This option for the court corresponds to the option for the parties to choose the law for a part only of the contract, but it should not be used frequently and as a result of that fact it has not been retained in the Rome I Regulation.

The presumption in the Convention presents the advantages that uniformity between the courts of the different Member States will be easier to achieve and that the applicable law can be determined even if there is more than one place of performance, but it has also been subjected to a lot of criticism. The presumption applies very well to simple contracts, such as a contract for the sale of goods, but it will be difficult to identify a single characteristic performance in a contract that is of a slightly more complicated nature,²³ especially if it involves mutual obligations of confidence and collaboration. The presumption may also not be the most effective way to determine the closest connection. Is there necessarily such a

²² Article 4(1) (second sentence) of the Rome Convention 1980; see also the Giuliano/Lagarde Report, n 4 above, at 23.

²³ See Juenger, in North (ed), *Contract Conflicts*, North-Holland Publishing Company (1982) 295, at p 301.

close link, not with the place where the characteristic performance is to be effected, but with the place of habitual residence of the person that is to effect the characteristic performance? And if the payment of money cannot be the characteristic performance because it is a performance that applies to many types of contracts, does that not unduly and mechanically downgrade the importance of the law of the country of the party that pays for the goods or services?²⁴

Although this method is of some help in general, it does not produce a clear and uniform answer in cases of international intellectual property contracts. Many of the difficulties highlighted above do after all apply to intellectual property contracts. It is simply not evident which performance is the characteristic one and almost all these contracts present close connections with more than one legal system.

An attempt has been made to address at least some of these issues in Article 4 of the Rome I Regulation. The presumption based approach has been replaced by a list of rules that determines the applicable law for certain types of contract. Article 4(1) refers to the law of the habitual residence of the seller for sale of goods contracts, to the law of the habitual residence of the franchisee for franchise contracts, to the law of the habitual residence of the distributor for distribution contracts, etc. Article 4(2) then deals with all types of contract that are not found in the list and the characteristic performance rule that was established in the Convention is retained for these (without the presumption aspect though). The characteristic performance rule is also applied to those cases where elements of the contract are covered by more than one of the rules of Article 4(1). Articles 4(3) and 4(4) then refer to what was Article 4(5) in the Convention. There may first of all be an apparent closer connection with another country. The law of that other country will apply if this manifestly closer connection is clear from all the circumstances of the case. And if Articles 4(1) and 4(2) do not allow the

²⁴ For the various criticisms see Collins (1976) 25 *ICLQ* 35, at 47; d'Oliveira (1977) 25 *Am J Comp L* 303, at 326–328; Morse (1982) 2 *Yb Eur L* 107, at 126–131.

identification of the applicable law the law of the country with which the contract is most closely connected offer the ultimate fall-back position. The Regulation therefore works with fixed rules and the characteristic performance for all other contracts, with the closest connection as an escape route. In the absence of formal presumptions the latter should be used sparingly, but in practice its criteria are the same as in the Convention system. Therefore there may not be an enormous change.

The latter is no doubt also helped by the fact that intellectual property contracts do not easily fall within either Article 4(1) or Article 4(2). The original proposal for a Rome I Regulation contained a specific rule for intellectual property contracts in Article 4(1) and this would have led to the application of the law of the licensor or assignor. With my CLIP colleagues I argued that this rule was unsound. There was no clear definition of what was an intellectual property contract. Plenty of franchise and distribution contracts contain strong intellectual property components and there would have been a conflict between the various rules in Article 4(1) as a result of the overlap. The rules would then also have clashed, as in an intellectual property context the franchisee e.g. would have been the licensee rather than the licensor. Under the mechanism in Article 4(2) the rules would then have cancelled each other out, but this would have defeated the whole idea of having a special rule for intellectual property contracts. It is also by no means clear that the choice for the law of the country of the licensor or assignor could have been justified in all cases in a characteristic performance / closest connection context. Intellectual property contracts can after all be very different in nature. Or as we put it in the CLIP Comments:

“The wide variety of contracts relating to intellectual property rights also calls for a differentiated solution instead of one strict, clear-cut rule. Even though the application of the law of the assignor or transferor of the intellectual property right might be appropriate in simple contracts which resemble an outright sale – such as an

assignment or license for consideration in the form of a lump sum payment –, this does not hold true as a general rule. More complex intellectual property transactions often include an explicit or implicit duty of the licensee to exploit the intellectual property right, sometimes supplemented by clauses indicating quantities of production or modalities of use, while the licensor does not accept any commitment beyond the toleration of use of his rights. This casts doubt on the proposition that it is the licensor who effects the performance characteristic of the contract (as it is the licensee who accepts the commercial risks linked to the exploitation). It may also be the case that the intellectual property rights licensed or assigned are mainly exercised in the country of the licensee's or transferee's habitual residence or principal place of business. Another example of an intellectual property contract where the performances of both parties are essential and characteristic is a contract to publish and distribute a book.²⁵

It is therefore satisfying to see that the specific rule for intellectual property contracts has been dropped altogether. One should however add that the fact that intellectual property contracts do not form a homogeneous group such as e.g. sale of goods contracts and are instead very diverse in nature does also mean that the determination of the characteristic performance will not be a straightforward affair either. The exercise will have to be conducted on a case by case basis and it is to be expected that for highly complex intellectual property contracts recourse will frequently be had to the closest connection escape route. This is in essence due to the complex nature of many intellectual property contracts, rather than to any deficiency in Article 4.

²⁵ CLIP, Comments on the European Commission's Proposal for a Regulation on the Law Applicable to Contractual Obligations („Rome I“) of December 15, 2005 and the European Parliament Committee on Legal Affairs' Draft Report on the Proposal of August 22, 2006, 4th January 2007, see <http://www.cl-ip.eu/>.

Article 4 Rome I Regulation applied in practice

(a) PATENT LICENCE AND PATENT ASSIGNMENT CONTRACTS AND SOME GENERAL CONSIDERATIONS

Typically, a patent licence gives the licensee the right to make the patented product or to use the patented process. The licensor develops the technology, the patented product or process, whilst the licensee exploits the technology and pays a royalty for doing so. The licensor often only receives payment if the technology is exploited successfully, because the payment of royalties is linked to the frequency of the use of the technology or the design. The royalty is often expressed as a percentage of the sales-price.

On this basis, a number of countries could claim to have the closest connection with the licence contract. The country of the licensor could rely on the fact that, without the creation and the supply of the technology or the design, nothing would happen. The country of the licensee could rely on the fact that the exploitation of the technology or design involves a major commercial risk and that, without the successful exploitation, the licensor would receive no payment whatsoever. There is, of course, also the country in which the technology is exploited. The exploitation could be seen as the most important element and that country is also the protecting country for the intellectual property rights themselves. A single law would then govern most aspects of both the intellectual property right itself and the contract in relation to the right. Let us now see how in application of Article 4(2) the characteristic performance could be identified.

Simple contracts. For a number of simple contracts, the characteristic performance approach might work rather well. For example, the contract by which an intellectual property right is purely and simply assigned resembles an outright sale of the right. If the assignee pays a lump sum in consideration of the transfer of the right which is effected by the assignor that resemblance is indeed correct. In that case, the assignment is clearly the characteristic

performance.²⁶ The applicable law can then be determined on the basis of the place of habitual residence of the assignor, in accordance with Article 4(2). In a second example, the assignment could be replaced by a bare licence. If the licence is for a single use and the whole of the consideration is in the form of a lump sum, again there is a resemblance to an outright sale of the right. An approach that favours the identification of the licensor's performance under a licence contract as the characteristic performance of the licence contract has been favoured by some authors. The performance by which the licensor transfers the right is seen by them as the characteristic performance under the licence contract as it is the essential element which enables, and at the same time limits, every activity of the licensee. The obligations of the licensee are subordinated to those of the licensor. Schnitzer argues that the characteristic performance is that of the licensor because the performance of the licensee is nothing but the payment of money, as a lump sum, by means of royalties or as a combination of both. This leads him to consider the licence grant by the licensor as the characteristic performance. Payment of money is considered never to be the characteristic performance, as it is found in many contracts and in exchange for all kinds of specific performances.²⁷ This systematic preference for the performance which does not involve the payment of a sum of money is also found in the Giuliano/Lagarde Report on the Rome Convention 1980.²⁸ Lagarde cites a licence contract as an example, which implies that he considers the law of the country of the licensor as the law applicable to the licence contract in the absence of a choice of law in cases involving licence contracts to which the Rome Convention 1980 is applicable.²⁹ There is no reason to doubt that that conclusion will remain unchanged when it comes to the Rome I Regulation. His conclusion corresponds to the Danish pre-Convention position regarding the characteristic performance in intellectual

²⁶ Wadlow, [1997] 1 EIPR 11, at 14.

²⁷ Schnitzer, *Handbuch des internationalen Privatrechts II*, Basel (4th ed, 1958), at 597 and G Modiano, *Le contrat de licence de brevet*, Dalloz (1979), at 127–128.

²⁸ Giuliano/Lagarde Report, n 4 above, at 20.

²⁹ Lagarde, [1991] *Revue Critique de Droit International Privé* 287, at 307.

property licence contracts.³⁰

Complex contracts. But, ‘the more complex a transaction, the less helpful the criterion becomes’.³¹ As soon as the simple assignment contract is left behind, things get a lot more complicated. The situation where an assignment or a licence of an intellectual property right is granted in exchange for the payment of royalties rather than for the payment of a lump sum³² is not at all uncommon. It is almost the standard type of licence contract. In such a situation, the assignee or licensee would also undertake to exploit the right and it accepts the commercial risks that are linked to such an exploitation. Such exploitation could, for example, involve the manufacture, the distribution and the marketing of the licensed articles. In those contracts, the exploitation of the right is, arguably, more important than the payment of money, and at least as important as the complete or partial transfer of rights. A single characteristic performance can hardly be identified in these circumstances and it is submitted that Schnitzer’s view on the matter cannot be readily accepted.

That is also the case for a contract to publish and distribute a book, which could be taken as another example of a more complex contract. Such a contract involves a whole range of performances. The author undertakes to write and deliver the manuscript and to grant a licence to copy his copyright work to the publisher in exchange for a royalty or for a royalty combined with an advance. The publisher’s performance lies in the fact that he undertakes to publish and to distribute the work. Paying money or receiving money can be ruled out for the purposes of the identification of the characteristic performance, but it is submitted that the production of the manuscript and the copyright licence on the one hand, and the publication and distribution of the book, on the other hand, are both vital to and characteristic of the

³⁰ See Pfaff, [1974] AWD 241, at 247 where he refers to Hjerminde ‘Dänemark’ in Langen, *Internationale Lizenzverträge*, (2nd ed 1958) 93–104.

³¹ Juenger, in North (ed), *Contract Conflicts*, North-Holland Publishing Company (1982) 295, at p 301.

³² In certain contracts, an initial lump sum is combined with the payment of royalties during the exploitation of the intellectual property right. This could complicate things even further.

contract.³³

A joint venture contract is probably the most problematic type of contract, especially when joint research and development is envisaged. Typically, such a contract involves the cross licensing of technology and in practice ‘the performance by each party seems equally characteristic’.³⁴

It is, therefore, submitted that for all but the simplest types of contracts in relation to intellectual property rights, a single characteristic performance cannot be identified.

Article 4(2) Rome I Regulation cannot be applied successfully in those circumstances.

Article 4(4) addresses such a situation by referring back to the closest connection test. And even if one were to identify a characteristic performance there may be an even closer connection under Article 4(3).

Closest connection. The country with which the contract in relation to intellectual property rights has its closest connection needs to be identified in situations where the characteristic performance rule cannot be applied, but even then the dominant performance will play a strong role in relation to intellectual property contracts. The law of that country will be the law applicable to such contracts. Various solutions have been suggested by the caselaw and in scholarly writings. Most of the discussion has centred around licences, as they are the most common type of contract.

The licensor’s habitual residence, etc. The first of these solutions proposes the application to the licence contract of the law of the country where the licensor has its habitual residence, place of business or central administration on the basis of the argument that the contract is most closely linked to that country.³⁵ The arguments in favour of this solution are as follows.

First, this solution can be supported on the basis that one can consider the law of the

³³ See Wadlow, n 26 above, at 14 and Juenger, n 31 above, at 301.

³⁴ Wadlow, n 26 above, at 14.

³⁵ See eg the judgment of the Swiss Federal Court [1976] JdT I 519.

country of the licensor to be the law of the country with which the licence contract has the closest connection. If one prefers this solution, one stresses the connection provided by the invention or the industrial design for which the exclusive right was granted. The country of the licensor is the country where the invention or the industrial design was created. Secondly, it seems equally important that the existence of the whole contract depends on the existence of the exclusive right (and the readiness of the licensor to grant a licence thereof).³⁶ Only the latter argument is always a valid one. The first argument is not valid if the licensor is in fact granting a sub-licence, being a licensee himself, or if the industrial property right has been assigned to him by the inventor or the creator of the industrial design. Although these arguments can be decisive in some cases if one examines each licence contract separately, they are not convincing enough to prefer systematically the law of the country of the licensor to any other law.

Thirdly, another argument in favour of the law of the country of the licensor is found in the Swiss Private International Law Statute. Article 122(1) reads: ‘Contracts on rights in intellectual property are governed by the law of the country where the transferor or licensor has his habitual residence’.³⁷ The fact that the characteristic performance theory is, in origin, Swiss adds to the value of this argument.³⁸ Even before the codification of Swiss private international law, the Swiss courts brought the characteristic performance theory into practice. When applied to licence contracts without a choice of law, this resulted in the application of the law of the country of the licensor.³⁹

³⁶ See G Modiano, n 27 above, at 128.

³⁷ Swiss Private International Law Statute of 18 December 1987, reproduced in P Karrer and K Arnold, *Switzerland's Private International Law Statute*, Kluwer (1989), the translation is an unofficial one provided by the authors.

³⁸ Dessemondet suggested that this rule should even apply to non-patented know-how, in *Conflicts and Harmonisation – Mélanges en l'honneur d'Alfred E von Overbeck* 725, at 741.

³⁹ See the *Togni*-case: judgment of the Swiss Bundesgericht, 22 April 1975, BGE 94 II 362 *et seq.*, [1977] GRUR Int 208 at 209 and M Keller, C Schulze and M Schaetzle, *Die Rechtsprechung des Bundesgerichts im internationalen Privatrecht und die verwandten Rechtsgebiete - Band II - Obligationenrecht*, Schulthess Polygraphischer Verlag (1977), at 300; see also the Swiss case *Stipa v Dixi* BGE 94 II 355 *et seq.* and M Keller, C Schulze and M Schaetzle, *ibid*, at 305 (the law of the country of the licensor can be set aside in exceptional

Arguments against the licensor's performance as the characteristic performance are as follows.

One could argue that the determination of the licensor's performance as the characteristic performance of the licence contract does not give a straight answer to the question of which law should be applied. That could still either be the law of the country in which the licensor had to perform its characteristic duty, thus normally the law of the protecting country, or the law of the country where the licensor had its habitual residence.⁴⁰ The text of Article 4(2) of the Rome Convention 1980 and the Rome I Regulation refers only to the latter option, which means that this discussion seems to have become irrelevant. It is submitted, however, that it might resurface in another form. Large multinational companies often centralise the management of their intellectual property rights in a subsidiary that is set up specifically for that purpose. Such a company might be located in a tax haven or at least in a country that has no direct link to the creation of the technology or the intellectual property rights. In such a situation, the application of Article 4(3) could be triggered, because the link with the country in which the intellectual property management company is established is a very weak one, whilst there is a very strong link with the country in which the licensee is established and in which the licensed right is to be exploited. This is exactly what the Austrian Supreme Court decided in the *Stefanel* case. The law of the Virgin Islands, where the intellectual property management company had been established, was rejected as the applicable law.⁴¹ The law of the country of exploitation is also the law of the protecting country and the law under which the intellectual property right has been registered. This country is also the country where the licensor has to effect its performance under the contract, as the technology has to be made available locally.

Troller was only convinced by the arguments in favour of the law of the country of

circumstances if the existence of a stronger link with another law is demonstrated).

⁴⁰ von Hoffmann, (1976) 40 RabelsZ 208, at 213, n 13.

⁴¹ Judgment of 5 May 1987 [1988] GRUR Int 72.

the licensor if this law was to be applied to a contract in which a licence was granted for several countries. In this type of case, the fact that only one law governs the contract forms an additional advantage.⁴²

Ulmer proposes the application of the law of the country of the licensor in the situation where the licence that is granted is neither exclusive nor contains any obligation to exploit the licence.⁴³ In suggesting this, he clearly has in mind a licence granted to a counterfeiter in a compromise to avoid hard, expensive and protracted litigation. In all other cases, he thinks the effective exploitation by the licensee (in combination with the payment of money) becomes the characteristic performance as the success of the contract depends on this exploitation. Most contracts include a clause which obliges the licensee to pay royalties to the licensor, which means that, even for the licensor, the exploitation becomes the most important point of the contract as its income depends on it.

It is clear that the obligation of the licensee does not only imply the payment of money and that, in most cases, the balance between the performances of the parties to the licence contract is more subtle, which means that the main argument in favour of the law of the country of the licensor is no longer valid. One has to conclude that there is no general rule which implies the application of the law of the country of the licensor to the licence contract⁴⁴ because its performance is the characteristic one. Only in very specific cases and after individual examination can that law be applied to a licence contract.⁴⁵

The licensee's habitual residence, etc. The second solution proposes the application to the licence contract of the law of the country where the licensee has its habitual residence,

⁴² Troller, [1952] *GRUR Auslandsteil* 108 at 121, also Vida, [1964] *Revue Critique de Droit International Privé* 209, G Modiano (n 27 above, at 128 and 132) mentions that Troller later reviewed his position by adopting a position similar to that of Ulmer (see below) and she cites: Troller 'Kurzreferat gehalten am Symposium über die Immaterialgüterrechte im internationalen Privatrecht AIPPI – Congress Munich 18 April 1975.

⁴³ E Ulmer, *Intellectual Property Rights and the Conflict of Laws*, Kluwer and the Commission of the European Communities (1978), at 102.

⁴⁴ Contra: Dessemontet, [1978] *Journal of International Law and Economics* 1.

⁴⁵ Beier's approach illustrates this; see below and Beier, in Holl and Klinke (eds) *Internationales Privatrecht, Internationales Wirtschaftsrecht*, Carl Heymanns Verlag (1985) p 287 at pp 301–302.

place of business or central administration, on the basis of the argument that the contract is most closely linked to that country.⁴⁶

The distinction made by Ulmer, which was mentioned a few paragraphs earlier in this analysis, indicates that he thinks a different solution has certain merits. This solution proposes the law of the country of the licensee as the law applicable to international industrial property licence contracts in the situation where the parties did not choose an applicable law.

Ulmer stresses the link with the country of the licensee, if the licensee has a duty of exploitation or if an exclusive licence is granted.⁴⁷ In such a situation, the licensee's performance is the characteristic one. But only a few authors are prepared to accept the applicability of the law of the country of the licensee as a general rule without exceptions.⁴⁸

The arguments in favour of the law of the country of the licensee have been expressed as follows. Whilst Ulmer sees this solution as an exception to the rule that the law of the country of the licensor is the applicable law and Claringbould, on the contrary, sees it as establishing an inflexible rule, the most detailed and reasonable description of this solution and the cases to which it could apply is presented by Giovanna Modiano.⁴⁹ In her opinion, the basic option is the applicability of the law of the country of the licensee. Certain cases can, however, present a closer link with another country, in that case the law of that country becomes applicable. The most prominent exception is the case in which the licensee is under no obligation to exploit the invention or the industrial design and its only obligation consists in the payment of certain sums of money, in which case the applicable law is the law of the country of the licensor.⁵⁰

The Austrian Parliament has favoured the application of the law of the country of the

⁴⁶ See, e.g. the judgment of 29 November 1968 of the Obergericht Zürich (Switzerland) 67 (1968) *Blätter für zürcherische Rechtsprechung* 118 (in relation to a trade mark licence).

⁴⁷ Ulmer, n 43 above, at 101–102; Troller agreed, earlier he thought the performance of the licensee was the characteristic one in a one country licence contract (above n 42).

⁴⁸ Claringbould, *Licenties: Praktische wenken voor de kennishandel*, Kluwer (1982), at p 83.

⁴⁹ G Modiano, n 27 above, at 138–141.

⁵⁰ *Ibid* and Modiano, [1981] *Les Nouvelles* 55 at 59–60.

licensee if the licence contract relates to several countries.⁵¹ This means, under Austrian Private International Law, that if one licensee is granted a licence for several countries, the law of the country of the licensee becomes the applicable law, without exceptions, if the parties did not agree on the applicability of the law of another country.⁵² In cases of cross-licensing, in which both parties are licensor and licensee for different intellectual property rights, the Austrian statute leads to the application of the law of the country with which the cross-licence contract has the closest connection. In many cases, this is merely restating the problem without suggesting a clear solution.

The starting point of Modiano's defence of the solution which she proposes is the fact that the vast majority of licence contracts are concluded by licensees which are eager to exploit the invention or the industrial design.⁵³ If one is looking for the characteristic performance, she argues that one has to turn to the licensee. The licensee is investing capital and manpower in the exploitation of the industrial property right. The licensor, in most cases, limits its action to receiving the royalties or any other payments made under the licence contract. In her opinion, technical assistance, quality control and assistance in case of infringement of the right by the licensor cannot change this balance.⁵⁴

There is, however a situation in which these arguments become less convincing, because they are dependent on the fact that the licensee exploits the licence in the country where it is established. There is no apparent reason to apply the law of the country of the licensee, as the law with which the contract has its closest connection, if the licensee exploits the licence in a third country. All the additional efforts of the licensee in exploiting the technology then take place in a third country. If anything, the argument seems to favour the

⁵¹ Austrian Federal Statute of 15 June 1978 on Private International Law (IPR-Gesetz), *Bundesgesetzblatt für die Republik Österreich*, 7 July 1978, No 304, 1729 at Para 43(1).

⁵² See Köhler and Gürtler, *Internationales Privatrecht – IPR Gesetz*, Druck und Verlag der Österreichischen Staatsdruckerei (1979), at 122–123.

⁵³ Modiano, n 27 above, at 139, where she reproaches Ulmer for coming to the opposite conclusion without factual grounds.

⁵⁴ *Ibid*, at 138–141.

application of the law of the place of exploitation, as the country with which the contract, arguably, has its strongest connection, rather than the law of the country of the licensee.

That brings us to the exceptions to the theory that favours the law of the country of the licensee. When it comes to the exceptions to the theory, it should be accepted that the obligation to exploit can be implicit.⁵⁵ Ulmer's exception in the situation where the licence is exclusive cannot be endorsed, as there is no evidence that this fact would have any influence on the exploitation so as to render the law of the country of the licensee inapplicable.⁵⁶

Troller does not place the law of the country of the licensee at the heart of his theory, he suggests that the law of the country of the licensee is only appropriate if the licensee, whose licence covers several countries, has a duty to exploit the industrial property right.⁵⁷ He sees this situation as being exceptional. But, it is submitted that this is not so. The exploitation of the industrial property right is, in general, the main motivation for the conclusion of a licence agreement.⁵⁸ This does not lead to a general preference for the law of the country of the licensee, as the essential fact is the exploitation of the industrial property right and that fact is inevitably linked to the country which grants the protection for it and, as a consequence, becomes the place of exploitation. It is, in truth, only a coincidence that in most cases the licensee also has its seat in the protecting country.

It is clear that, although this theory is workable under Article 4 in several cases, it does not form a solution of general application. The licensee does not always effect the characteristic performance and the licence contract does not in all circumstances have its closest connection with the country in which the licensee is established or has its place of business. The fact that, under the Austrian statute, it is only applied to a specific type of case

⁵⁵ G Modiano, n 27 above, at 141 (unclear on this point).

⁵⁶ E Ulmer, n 43 above, at 102.

⁵⁷ Troller, n 42 above, at 121.

⁵⁸ See Modiano, n 27 above, at 139.

can be seen as providing additional support for this conclusion.⁵⁹

The law of the protecting country. The third solution proposes the application to the licence contract of the law of the protecting country on the basis of the argument that the contract is most closely linked to that country, as this is also the country where the technology will be exploited.

A solution which is internationally accepted for immovable property prescribes the applicability of the law of the place where the immovable property is located (*lex rei sitae*). As industrial property rights are a form of property, it could be expected that some authors would try to establish a similar solution in the present context. The *lex rei sitae*, in this case the law of the protecting country, is seen as the applicable law by Wolff,⁶⁰ Dicey,⁶¹ Schmitthoff,⁶² Raape,⁶³ Batiffol,⁶⁴ Troller⁶⁵ and Beier.⁶⁶

The preference for the law of the country of protection, where the licence will be exercised,⁶⁷ is based on the fact that, as far as industrial property rights are concerned, the country of protection is also the country of exploitation.

Several arguments make it possible to see the law of the protecting country as the law of the country with which the licence contract has the closest connection. The element to which most weight is to be given, is the exploitation of the licence.

The first argument in favour of the law of the protecting country is that the objective centre of gravity of the licence contract is found in that country. The contract has the

⁵⁹ See above n 51 for the reference to the Statute and below for further details.

⁶⁰ Wolff, *Private International Law*, Oxford (2nd ed 1950), at 547.

⁶¹ Dicey, *Dicey's Conflict of Laws*, London (7th ed 1958). This view is no longer found in the current 14th edition of Dicey, *Morris & Collins, The Conflict of Laws*, Sweet & Maxwell (2006).

⁶² Schmitthoff, *The English Conflict of Laws*, London (3rd ed 1954).

⁶³ Raape, *Internationales Privatrecht*, Berlin (5th ed 1961).

⁶⁴ Batiffol, *Les Conflits de Lois en Matière de Contrats*, Sirey (1938) and *Traité Élémentaire de Droit International Privé*, LGDJ (3rd ed 1959).

⁶⁵ Troller, n 42 above, at 196; for the exceptions which he introduced in his theory at certain stages see above.

⁶⁶ Beier, [1982] IIC 162, at 176.

⁶⁷ See, in this sense District Court of Stuttgart, 14 March 1957, [1956–1957] IPRspr No 29; District Court of Düsseldorf, 4 August 1961, [1962] GRUR Int 256 and Court of Appeals of Zürich, 20 November 1968, [1969] AWD 329 (in the latter judgment, the court, equally, indicated that in the absence of a choice of law clause in the licence contract a clause on jurisdiction will amount to a choice of law); all judgments cited by Beier, n 66 above, at 176, n 45.

strongest nexus with that country; the industrial property right is located and protected in that country and, in most cases, all or at least the primary exploitation acts are performed there. The latter point is decisive for the determination of the closest connection of the contract since all other elements depend on the exploitation of the invention or the industrial design. The whole idea of industrial property itself depends on the special rights of the inventor or designer and on making the invention or the design available to the public by exploiting it. Exploitation is a necessary requirement for continued protection in most national intellectual property systems. In the authors' view, however, the dominant element is the protection which is granted. This makes it difficult to see the exploitation of the right as 'the' characteristic performance. Beier even sees the fact that the performance of the licensor is the grant of the licence for that country as an additional argument in favour of this solution.⁶⁸

The second argument is that this solution is also the only one which leads to the result that the entire contractual relationship is governed by the same law, because the law which is applied in a compulsory way to certain aspects of the contractual relationship is precisely the law of the protecting country.⁶⁹ This idea of unity is the major argument advanced in favour of the law of the protecting country by Pfordte.⁷⁰ Although this is more a policy argument than one which objectively points towards a legal system, it strengthens the merits of this solution.

The third argument is that, in the majority of cases, the law of the protecting country and the law of the country of the licensee coincide. This reinforces the arguments in favour of the law of the protecting country, but even in the exceptional case where these two indices point to different countries the law of the protecting country should be applied as the

⁶⁸ Beier, n 66 above, at 176.

⁶⁹ Beier, n 66 above, at 176–177, see also District Court of Stuttgart, 14 March 1957, [1956–1957] IPR Rspr No 29.

⁷⁰ Pfordte, [1974] DB 1465 at 1467.

arguments in favour of it are the most convincing.⁷¹ As regards a situation where indices point to different countries, Beier⁷² gives Ulmer's example of an English firm that grants a licence to a French firm for the Japanese market and refers to the case which came before the District Court of Stuttgart⁷³ in which a licence contract covering the Dutch market had been concluded between Englishmen and Germans. A different situation is, obviously, presented by a licence for a third country. If the licensor and the licensee have their seat in the same country, such a licence is most closely connected with the country in which both parties have their seat. The applicable law will be the law of the country in which the parties have their seat.⁷⁴

There are arguments though against the application of the law of the protecting country. First, the application of this law does not seem to be an appropriate solution in the situation where a licence contract for several countries is granted to one licensee, as it could, in such a case, lead to the application of different laws to one contract depending on the country where the problem giving rise to litigation arises. There is, though, an answer to this objection. When a licence for several countries, which is granted to one licensee, involves production (and/or eventually the application of the trade mark to the goods) in the country where the licensee has its seat and the activities of the licensee in all other countries which are covered by the licence are restricted to the marketing and the distribution of the product, the law of the primary country of protection could still be applied to the whole licence contract. Essentially, the exploitation of the industrial property right takes place in that country, and the marketing and distribution in other countries in a later phase does not fundamentally change this.⁷⁵

⁷¹ Beier, n 66 above, at 176.

⁷² Beier, n 66 above, at 176.

⁷³ See above, n 69.

⁷⁴ See Troller, *Das internationale Privat- und Zivilprozessrecht im gewerblichen Rechtsschutz und Urheberrecht*, Verlag für Recht und Gesellschaft (1952), at 199 and Troller, n 42 above, at 121.

⁷⁵ Beier, [1983] *Les Nouvelles* 141 at 145.

The only situation which really presents a problem is the one where the industrial property right is effectively exploited in all countries covered by the licence contract. Here, one could still advocate the application of the law of the protecting country. The parties should have incorporated a choice of law clause in the licence contract if they wanted to subject the licence contract to a single law in all circumstances. But it is suggested that this approach, although correct from an academic point of view, should be replaced by the application of the law of the licensee. The latter option has the advantage that, regardless of the country, one law is applied to all contractual aspects of the licence contract and, in practice, this seems to be the only workable solution where the relationship between the parties is of the one licensor-one licensee type. It should, nevertheless, be concluded that the option favouring the law of the (primary) country of protection⁷⁶ can successfully be applied to more cases than the solutions previously dealt with and that the arguments in favour of it are rather more convincing.

Secondly, Beier mentions two situations in which the law of the protecting country should be replaced by the law of the country of the licensor or the law common to the licensor and the licensee. It is stressed that these cases only form marginal exceptions and that Article 4(3) equally recognises this kind of exception where there is a closer connection with another legal system. The first exception arises when a license agreement for a third country is concluded between a licensor and a licensee which have their seat in the same country and thus a common nationality. It is obvious that such a contract is most closely linked with the common law of the parties and that the licence agreement should be governed by the common law of the licensor and the licensee with which they are familiar, rather than by the unfamiliar law of the third, protecting country. The second situation is where there is a

⁷⁶ The specific doctrine of the law of the primary country of protection was developed by Beier ('das primäre Schutzland'), see, eg Beier, [1983] *Les Nouvelles* 141 at 144–145 and Beier, in Holl and Klinke (eds) *Internationales Privatrecht, Internationales Wirtschaftsrecht* Carl Heymanns Verlag (1985) p 287 at pp 296–298 and p 301.

very close connection with the law of the country of the licensor. Central to this exception is a transfer of technology license agreement for a completely new technical development, developed unilaterally by the licensor and with which the recipient party has absolutely no experience. The centre of gravity of such an agreement is clearly situated in the country of the licensor if the agreement implies a continuous development of the technology by the licensor and a continuous flow of further know-how and improvements from the licensor to the licensee. Such an agreement should, accordingly, be governed by the law of the country of the licensor.⁷⁷

It is submitted that, in general terms, the law of the protecting country presents the strongest connection for the purposes of Article 4(3) Rome I Regulation, but, as was made clear above, other conclusions impose themselves in certain situations.

(b) CONTRACTS IN RELATION TO TRADE MARKS

In many respects, contracts in relation to trade marks are similar to those in relation to patents. Generally, the same legal approach can be applied to both types of contract. This uniformity is particularly helpful in the situation where a contract to produce and market a product combines a patent licence with a trade mark licence. The same law will apply to both licences.

Article 4(2) and the characteristic performance system will work well with simple contracts. The assignor will effect the characteristic performance in the situation where the trade mark is assigned and a lump sum is paid in consideration of that assignment. This really represents a straightforward sale of the trade mark.

Trade mark licences present more problems. It is submitted that, as a starting point, the approach which we outlined in relation to patent licences ought to be applied. This means

⁷⁷ Beier, in Holl and Klinke (eds) *Internationales Privatrecht, Internationales Wirtschaftsrecht*, Carl Heymanns Verlag (1985) p 287 at pp 301–302.

that, in most cases, it will not be possible to identify a characteristic performance. This will especially be the case in those situations where the licensee undertakes the production of the labelled product and the marketing of the brand. The creation of the mark by the licensor is then balanced, in terms of characteristic performance, by the marketing and production that is undertaken by the licensee. Both elements are vital to turn the licence into a success. In legal terms, this leads to the application of Article 4(4) Rome I Regulation. The arguments in favour of the various connections have been set out in relation to trade marks and, whilst the strongest connection will have to be determined case by case, it has been concluded that, in the typical case, the closest connection exists with the protecting country.

Some special circumstances can arise, though.⁷⁸ Thus, the application of the law of the country of the trade mark owner and licensor is appropriate ‘in the case of a well-known trademarked product, protected worldwide, whose marketing through foreign subsidiaries and licensees is directed and controlled from the *situs* of the parent corporation following uniform principles of production, licensing, trademark utilization, and advertising’.⁷⁹ In legal terms, this is probably another example of a situation where it is possible to identify the characteristic performance. That characteristic performance is clearly effected by the licensor. It can be added that these exceptional circumstances arise frequently in relation to a franchise contract that includes a trade mark licence. But in those circumstances article 4(1) now expresses a preference for the law of the country of habitual residence of the franchisee. Article 4(3) may therefore be called upon frequently in those circumstances even if this might not have been the aim when the franchise rule in article 4(1) was devised.

(c) COPYRIGHT CONTRACTS

A few preliminary remarks concerning contracts in relation to copyright need to be

⁷⁸ Beier, [1982] IIC 162 at 163–164.

⁷⁹ Beier, *ibid*, at 181.

made. Many types of contract can be used in relation to copyright. Typically, the owner of the copyright in a work allows someone to do something in relation to the work that would otherwise, normally, amount to an infringement of the copyright in the work. This can be done by means of a licence, for example a licence to copy the work, but it is, in practice, also common to use an assignment. The problem with this assignment is that, often, it does not amount to a sale of the copyright in the work. It can be restricted in scope and in time. It is possible to transfer only part of the right or to stipulate that at the end of a certain period of time the transfer will be undone and that all the rights will return to the original owner of the copyright at that time. For example, the owner of the copyright in a manuscript can assign the right to publish foreign language editions of it to a publisher for a period of 25 years. At the same time, the rights to make a movie on the basis of the manuscript can be assigned to a movie-company that is unrelated to the publisher. These differences in terminology in comparison with patents and trade marks need to be borne in mind. A copyright assignment is not necessarily similar to the sale of the complete right.

More complex contracts can arise. A publishing contract for a book has already been mentioned as an example earlier in this article. Similar contracts can be concluded for the production of a video, tailor-made software, songs or a TV programme. In these situations, a uniform legal approach seems to be desirable. Contracts to adapt a play for radio broadcasting are yet another example.

Once again, these contracts have, in most cases, connections with many countries. Obvious contenders for the country with which the contract is most closely connected are the country of the author or copyright owner and the country of the publisher, recording company or broadcaster, as well as the protecting country, but let us look first at the characteristic performance system and how it may apply to copyright contracts. Eugen Ulmer set out to determine the characteristic performance in these cases and it is worth giving an overview of

his suggestions.⁸⁰

The starting point is the basic proposition that the obligation of the author or his successor in title shall be the characteristic performance.⁸¹ It can be accepted that the countervailing obligation to pay an agreed sum of money, which is an obligation which is found in a great variety of entirely different types of contract, cannot constitute the characteristic performance of a certain (type of) contract. A first example of contracts to which this basic proposition is applicable are agreements by which a collecting society grants permission for the exploitation of its repertoire, particularly exploitation through broadcasting, public performance or mechanical reproduction. The grantee pays a sum of money for a blanket licence, but is not obliged to exploit the works in the repertoire. He just gets the permission to do so should he so wish. He might decide not to exploit certain parts of the repertoire and exploit other parts repeatedly, etc. A second example is the sale of publication, cinematographic and/or mechanical reproduction rights from one publisher, film producer or manufacturer of sound recordings to another. Again, this is a pure sale under which the buyer's only obligation is to pay the price. The vendor performs the characteristic performance in such a contract.

In Ulmer's view, things change when the grantee undertakes in the contract to exploit the work or to exercise the rights in the work or when exclusive rights are assigned or granted to the grantee in order for the work to be exploited. Here, the grantee determines the exploitation of the work as the essential point. The characteristic performance is performed by the exploiter of the work. The obvious example of such a contract is the publication contract. The publisher undertakes to reproduce and distribute the work and this is the characteristic performance. Another example is where the author assigns his rights to a

⁸⁰ See E Ulmer, n 43 above, at 48–52.

⁸¹ See Dessemontet, 'L'Harmonisation du droit applicable aux contrats de licence', in W Stoffel and P Volken (eds), *Conflicts and Harmonisation – Mélanges en l'honneur d'Alfred E. von Overbeck*, Editions universitaires Fribourg (1990) 725, at 741.

collecting society which will supervise the exploitation of his rights. In such a case, the collecting society performs the characteristic performance.

The same solution can be applied to those cases where the obligation to exploit is not contained in the contract, but is assumed to exist. If an exclusive reproduction right is granted, for example, in relation to a painting, the obligation to exploit is assumed to exist since the painter would be blocked if no exploitation took place. Exploitation is the only reason why the contract is concluded and the obligation to exploit can, therefore, be assumed. Even in cases where the grant is non-exclusive and without an obligation to exploit, the solution can sometimes be applied. This is so in relation to a work where there are contributions by many authors. A single law of the author, who would perform the characteristic performance, cannot be identified in these cases.

Whilst we accept Ulmer's analysis⁸² in those case where the countervailing performance is the payment of money,⁸³ we do not fully agree with it in relation to contracts where an obligation to exploit is present. The exploitation of the work cannot be seen as the characteristic performance. If no work is created and no right to exploit is granted, there can be no exploitation. On the other hand, the artist needs the exploitation of his work to generate revenue and to keep working. Both aspects are equally important. Ulmer's approach unduly favours the exploiter's side. What is essential to both aspects is the existence of copyright protection. Without the presence of exclusive rights that copyright protection provides the whole contract could not exist. It is, therefore, submitted that the characteristic performance system of the Rome I Regulation does not apply here as no single characteristic performance can be determined.

The impossibility of identifying a single characteristic performance in each contract brings us within the scope of Article 4(4) Rome I Regulation. It is submitted that, for

⁸² See Ulmer, n 43 above, at 48–52.

⁸³ This situation can be compared to the assignment of a trade mark or a patent in exchange for a lump sum. A similar solution applies in all these cases.

example, cases such as the one where there are contributions by many authors, should be approached as falling under Article 4(4). The characteristic performance presumption needs to lead to the application of a single law, but in this example it would lead to as many laws as there are authors. What remains is that the contract is closely connected with the law of the country in which the publisher is established. One either accepts that the contract is more closely connected with that law than with each of the authors' laws separately, in which case Article 4(3) applies, or one accepts that the closest connection is the one with the country which was covered by the publication contract. It is submitted that the latter view is preferable, because the fact that there is more than one author does, as such, not change the importance of the publisher. Obviously, this solution can only be applied if there exists a single country in respect of which publication rights have been granted.

In more general terms, the strong link with another country which Article 4(3) of the Regulation requires is often present. That link exists with the protecting country whose law provides for the essential copyright protection. This leads to the applicability of the law of the protecting country. This approach has as its main advantage the fact that the whole contract, including the transfer of proprietary rights, is governed by the same law. It makes sense to submit, for example, both the contractual obligation to assign the publication rights in a book and the actual assignment to the same law.

Our approach, as outlined above, applies only to those contracts in which rights are granted for a single country; it would be very difficult to apply at the same time the different laws of all the protecting countries in those situations in which rights are granted in relation to more than one country. When worldwide rights and rights in relation to many countries are granted, Articles 4(3) and 4(4) still refer back to the country with which the contract has its closest connection. That country cannot be determined easily. The essential element, in most cases that involve complex copyright contracts, seems to be the exploitation of the copyright

work. It is, therefore, submitted that in these cases the closest connection exists between the contract and the country in which the exploiter, i.e. the publisher, broadcaster, etc, of the work is established.⁸⁴

It is submitted that the foregoing discussion shows clearly that ‘there is little unanimity among legal writers as to whose obligation is the most significant in a licensing agreement’,⁸⁵ but that the arguments in favour of the law of the (primary) country of protection are the most convincing ones, although they do not offer a solution in every case. A similar approach is found in the Austrian Federal Statute of 15 June 1978 on Private International Law.⁸⁶

How does this fit in with the provisions of the Rome I Regulation? The above analysis has demonstrated that the characteristic performance system works well only in relation to the most simple contracts and, in particular, in relation to those contracts that involve the outright sale of the intellectual property right in exchange for a lump sum. In those scenarios the characteristic performance system overrules our general preference, but in most cases the characteristic performance law will also be the *lex protectionis*. In most other cases, a single characteristic performance cannot be identified. For those cases Article 4(4) refers to the closest connection. The country with which these contracts in relation to intellectual property rights are most closely connected then needs to be identified. Our analysis led us to emphasise the importance of the exploitation of these rights. That exploitation normally takes place in the protecting country.

Apart from the fact that it is an advantage to be able to apply one single law to all aspects of the industrial property right and its licence, an industrial property licence contract has its closest connection with the protecting country. The protection accorded is the ultimate

⁸⁴ See also Walter, (1976) 89 RIDA 45, at 61 and Plaisant (1962) 35 RIDA 63, at 95.

⁸⁵ Modiano, n 27 above, at 57.

⁸⁶ IPR – Gesetz, *Bundesgesetzblatt für die Republik Österreich*, 7 July 1978, No 304, 1729 at Para 43; see also G Van Hecke and K Lenaerts, *Internationaal Privaatrecht*, Story-Scientia (2nd ed, 1989), at 334.

foundation for the licence contract. Individual cases can, of course, exceptionally, show a particular connection with another country, in which case the application of the law of that country is called for. Some of these cases have been highlighted in the analysis above.

It is, therefore, suggested that, in principle and apart from the simple case where a characteristic performance can be easily identified, industrial property contracts should be governed by the law of the protecting country, but that, if a licence for several countries is granted to one licensee and the industrial property right is effectively exploited in all countries covered by the licence contract, the licence contract should be governed by the law of the country of the licensee.

Copyright contracts are subject to similar rules, as demonstrated above. In the situation where the contract grants rights in respect of a single country the closest connection exists with the country of protection. This is, normally, also the country in which the exploitation of the work takes place. But this terminology could become confusing, for example, in those cases where books are printed in a third country. Both the printing and the distribution and sale of the books could be seen as a form or aspect of exploiting the work. It is quite common, though, that rights in relation to copyright are granted in respect of more than one country. It is submitted that, in this situation, the essential element is still the exploitation of the work and that this leads to the closest connection being with the country in which the exploiter of the work is established.

Conclusion

The change from the Rome Convention 1980 to the Rome I Regulation has brought with it minor clarifications and improvements, but in relation to intellectual property contracts the applicable law issue remains difficult. Due to the complex nature of the

contracts involved the characteristic performance system will often not be of significant assistance and it was not possible altogether to come up with a single rule in Article 4(1). Articles 4(3) and 4(4) will be used frequently to identify the closest connection on a case by case basis. Fortunately, this will often result in the application of the *lex protectionis* and as this is also the law applicable to issues concerning the intellectual property right as such a single law will be applicable to contractual and non-contractual issues. This represents a significant advantage. Despite that, Article 4 remains cumbersome and unpredictable in its application to intellectual property contracts and the parties should be advised to go for legal certainty and predictability by making a choice of law in accordance with Article 3 Rome I Regulation. That is still by far the best solution.