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Cover Page Footnote
International Law; Commercial Law; Law
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G. Chin Chao

I. Introduction

Licensing, an approach between direct investment and exportation, has gained popularity as an effective first way to penetrate foreign markets. Particularly in the high-tech sector, the licensing of intellectual property rights as a means of entry has become the modus operandi for many enterprises. One reason for this trend is the increased protection of intellectual property abroad. As more countries have recognized the importance of intellectual property and its protection within their own countries, the opportunities for international licensing have grown dramatically.

Negotiating an intellectual property license, however, is not an easy task. A licensor must ascertain what rights to license, whether the rights licensed will be exclusive or non-exclusive, and whether the rights will be limited in duration, territory, or otherwise. The parties must also determine if the license will bear royalties or be fully paid-up, whether cross-licensing or sublicensing is allowed, and procedures for dispute resolution. Despite their efforts, the contracting parties cannot anticipate every contingency. One provision that should be included but is sometimes left out is what law applies when there is a dispute over the contract. Is it the law of the country where the contract was negotiated? The law where the suit was brought? The law of the licensor’s country? The law of the licensee’s country? Or the law of someplace else altogether? In the international setting, this

1 See generally, Thomas McCarrol, Creativity: Whose Bright Idea?, TIME, June 10, 1991, at 44 (discussing the increasing importance of protecting intellectual property).

2 See infra text accompanying notes 91-93.
omission can have the unexpected result of subjecting one party to the laws and courts of a foreign country.

This "law of the contract," as that term is used by courts and commentators, describes the laws of a given legal system that govern matters arising out of or relating to a specific contract. It governs inter alia the formation, interpretation and validity, termination, rights and duties of the parties, the mode of performance, and the consequences of breach. This paper focuses on the law of the contract in the context of industrial property licenses and how that law is determined. In particular, this paper examines the approaches taken by the European Union, the United States, and Japan in determining the law of the contract. These three systems not only provide a varied approach but also constitute a large proportion of the world's intellectual property licensing activity. Part II begins by detailing the scope of this paper's inquiry and its limitations. Part III examines the situation where the contracting parties have specified the law of the contract through a choice of law provision. Part IV then discusses how the three regions approach the problem when the parties have failed to make this choice. Finally, Part V explores the problems implicated by the systems' different approaches. Part VI concludes that although heading in the right direction, the efforts to harmonize industrial property laws are not yet complete, leaving licensing as the key tool for entering foreign markets with some measure of protection.


4 As used in this article, industrial property refers to patents, industrial designs, trademarks, and service marks.

5 The European Union consists of fifteen countries: France, Germany, Italy, Belgium, the Netherlands, Luxembourg, the United Kingdom, Ireland, Denmark, Greece, Spain, Portugal, Austria, Finland, and Sweden. The European Union was previously known as the European Economic Community but changed its name following the signing and entry into force of the Maastricht Treaty in November of 1993. Treaty on European Union, Feb. 7, 1992, 31 I.L.M. 247.

6 See infra notes 10-22 and accompanying text.

7 See infra notes 23-91 and accompanying text.

8 See infra notes 92-147 and accompanying text.

9 See infra notes 148-58 and accompanying text.
II. Background and Scope

The nature of industrial property and industrial property rights complicates conflict of laws analyses. Industrial property is inherently intangible. Although manifesting itself in physical objects, it is in fact a form of information. In this way, it is inexhaustible. Any number of individuals can use industrial property simultaneously, while in different locations, without depleting it. This concept frustrates conflict of laws analysis because, unlike real property, industrial property does not conceptually exist in a specific location.  

On the other hand, industrial property rights are territorial in nature. Both the conditions for obtaining these rights and their subsequent protection depend on the specific country granting them. There is no universal patent. For example, to obtain a U.S. patent, a person must satisfy the requirements of U.S. patent law. If that same person then wants a German patent, he would have to separately meet the requirements of German patent law. Meeting the requirements of U.S. patent law has nothing to do with obtaining a German patent. They are independent of one another. Moreover, once granted, the general rule is that these

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10 Professor Dr. Eugen Ulmer, Intellectual Property Rights and The Conflict of Laws 7 (Kluwer trans., 1978). Real property is usually subject to the law of the country where it resides.


12 Under TRIPS, the filing of a patent application or trademark application in a member country only gives that person a right of priority for any subsequent filings in other GATT member countries. TRIPS Agreement, supra note 11, art. 4, 33 I.L.M. at 86. The Patent Cooperation Treaty also allows an applicant to file one patent application and have it apply to designated member countries. Patent Cooperation Treaty, with regulations, June 19, 1970, art. 11, 28 U.S.T. 7645. However, the patent must still meet the individual requirements of member countries. Id. art. 27(5).

13 The Paris Convention explicitly recognizes this in Article 4 (1). "Patents applied for in the various countries of the Union by persons entitled to the benefit of the
rights are protectable only within the granting territory. Therefore, a U.S. patent holder would have no cause of action against a manufacturer making and selling, solely in Germany, an invention that infringes that U.S. patent. The U.S. patent holder, however, would have a cause of action against that same manufacturer if he held a German patent over the same invention.

Because industrial property rights stem from the country granting the right, or what commentators deem the "protecting country," certain matters are governed exclusively by the law of the protecting country and not the law of the contract. These include, inter alia, the rights that can be assigned and licensed, whether the rights can be licensed exclusively or partially and to whom, the rights that a licensee has against third-party infringers, and how an industrial property right originates and terminates. As mentioned earlier, other issues such as the formation, termination, interpretation and validity, rights and duties of the parties, the mode of performance, and consequences of breach, are subject to the law of the contract. In this way, the

Union shall be independent of patents obtained for the same invention in other countries, whether members of the Union or not." Paris Convention, supra note 11, art. 2.

14 Ulmer, supra note 10, at 10-11 ("the field of application of national laws is restricted to infringements committed within the country concerned"). However, TRIPS gives some extraterritoriality effect to domestic process patents by giving the owner the exclusive right to exclude others from importing products made from the patented process. TRIPS Agreement, supra note 11, art. 28, 33 I.L.M. at 93-94.

15 Ulmer, supra note 10, at 14-18. However, within the EU, a suit alleging the infringement of an industrial property right can be brought in the defendant country's domicile or in the country where the injury occurs. Id. at 16.

16 Professor Ulmer defines the law of the protecting country "as the law of the state for whose territory protection is claimed." Ulmer, supra note 10, at 11. The protecting country is "the territory of the granting state." Paul Torremans, Choice-of-Law Problems in International Industrial Property Licenses, 25 I.I.C. 390, 392 (1994).

17 Most commentators simply assume this fact because it necessarily follows from principles of territoriality. See Beier, supra note 3, at 177; Torremans, supra note 12, at 392. For industrial property, the tie with the protecting country is even stronger than with copyright because each country has its own specific formalities associated with obtaining industrial property rights. This makes even more cogent the argument for applying the law of protecting country exclusively to issues stemming from the industrial property.

18 Torremans, supra note 16, at 392; Ulmer, supra note 10, at 90.

19 Torremans, supra note 16, at 392; Ulmer, supra note 10, at 90.

20 Ulmer, supra note 10, at 91.

21 Torremans, supra note 16, at 392.

22 Unfortunately, not every issue cleanly fits into one category or the other. Some
The territorial nature of industrial property rights complicates conflict of laws analyses by necessitating a distinction between issues governed by the law of the protecting country and the law of the contract. This paper's focus, however, is on the proper law of the contract and how such law is determined.

III. Express Choice of Law

The European Union, the United States, and Japan all begin with the same position that contracting parties are free to choose the law governing their contract. Each system limits this choice in certain circumstances, however. Knowing what instances trigger these limits is important for keeping one's choice intact. This section outlines the legal framework from which the parties' choice is made and discusses limits to party autonomy.

A. European Union (EU) and the EEC Rome Convention on the Law Applicable to Contractual Obligations

The starting point in the EU is the EEC Rome Convention on the Law Applicable to Contractual Obligations. Signed on June 19, 1980, the EEC Convention eventually came into effect on April 1, 1991. Article 1 sets forth its scope: "The rules of this Convention shall apply to contractual obligations in any situation involving a choice between the laws of different countries." For issues have characteristics of both. Determining whether to apply the law of protecting country or the law of the contract is beyond the scope of this paper. For an excellent discussion of the conflict between the law of the protecting country and the law of the contract in the copyright context, see Paul Edward Geller, Harmonizing Copyright—Contract Conflicts Analyses, COPYRIGHT, Feb. 1989, at 49.


For a history of the negotiations and how this agreement came into existence, see P.M. North, The E.C.C. Convention on the Law Applicable to Contractual Obligations (1980): Its History and Main Features, in CONTRACT CONFLICTS: THE E.E.C. CONVENTION ON THE LAW APPLICABLE TO CONTRACTUAL OBLIGATIONS: A COMPARATIVE STUDY 3 (P.M. North ed., 1982). The Convention is not yet in force regarding Spain, Portugal, Austria, Finland, and Sweden. With regards to Spain and Portugal, the EEC Convention was opened for signature on May 18, 1992. 199 O.J. L333. Because Austria, Finland, and Sweden only recently joined the EU, the EEC Convention has not yet been opened for signature for these countries.

EEC Convention, supra note 23, art. 1. Article 1, however, fails to provide a definition of what is a "contractual obligation." Thus, self interested parties and potentially result-oriented courts could potentially avoid the effects of the EEC Convention by describing their transactions as noncontractual. Moreover, the rules of
example, although industrial property by itself does not fall within the confines of this definition, a contract licensing that industrial property does fall within its scope. It both creates contractual obligations, in this case between a licensor and licensee, and involves a choice-of-law determination between different countries.

1. Party Autonomy.

Article 3(1) states the general rule that the law of a contract is the law chosen by the contracting parties. This choice can be made or changed at any time, and the parties can specify whether the law applies to the entire contract or to just one part. The only requirement is that the parties' choice be "expressed or demonstrated with reasonable certainty by the terms of the contract or the circumstances of the case." The parties are

the EEC Convention do not apply to questions involving the status or legal capacity of natural persons, contractual obligations relating to wills and succession, rights in matrimonial property, rights and duties arising out of a family relationship, obligations relating to certain negotiable instruments, arbitration agreements, questions governed by corporate law, questions of agency, contracts for insurance, evidence and procedure, and the constitution of trusts. Id. arts. 1(2)-(3).


27 Torremans, supra note 16, at 393; cf. Beier, supra note 3, at 165 (assuming, without stating, that the EEC Convention applies to international trademark licenses). Industrial property licenses do not fall within the's carve-out exceptions of Article 1(2). See supra note 25.

28 The language of Article 1(1) states that the EEC Convention applies to "contractual obligations in any situation involving a choice" between different laws. EEC Convention, supra note 23, art. 1(1). Therefore, the EEC Convention is not limited to international cases but applies to matters of a purely domestic nature. Allan Philip, Mandatory Rules, Public Law (Political Rules) and Choice of Law in the E.E.C. Convention on the Law Applicable to Contractual Obligations, in CONTRACT CONFLICTS: THE E.E.C. CONVENTION ON THE LAW APPLICABLE TO CONTRACTUAL OBLIGATIONS: A COMPARATIVE STUDY 81, 94 (P.M. North ed., 1982).

29 EEC Convention, supra note 23, art. 3(1). This rule simply expressed the existing law of all Member States of the EEC. Giuliano and Lagarde, supra note 26, at 369.

30 EEC Convention, supra note 23, art. 3(2). The only limitation is that any change after the conclusion of the contract cannot threaten the contract's validity or adversely affect third-party rights. Id.

31 Id. art. 3(1).

32 Id. The parties may select a particular law because the selected law is particularly well-developed and concerns the subject matter of the contract, because the
therefore able to choose any country's law, even if such country has no direct relationship to the transaction or parties involved.\textsuperscript{33}

Article 3(1) also addresses the possibility that the parties may have implied a real choice of law even though their choice is not expressly stated.\textsuperscript{34} Giuliano and Lagarde, in their report on the Convention, cite several examples where this might occur.\textsuperscript{35} For instance, the parties may have consistently stipulated a specific choice of law in their prior dealings but neglected to do so in their most recent transaction.\textsuperscript{36} A court could then select the law previously chosen to govern their current contract if the circumstances do not indicate a deliberate change by the parties.\textsuperscript{37} In other cases, the form of the contract may specifically implicate a particular country's law even though there is no express statement to this effect.\textsuperscript{38} For example, legal terminology in the contract may be particular to a specific country or the use of a certain language may indicate the parties' implied intention. Finally, when the parties have specified a particular forum to handle any disputes, it may be that the parties also intended the law of that forum to govern their contract.\textsuperscript{39} Article 3(1), however, does not permit a court to infer a choice of law when the circumstances indicate the parties had no clear intention of making or inferring a choice.\textsuperscript{40} Courts in this instance must follow Articles

\textsuperscript{33} There is some disagreement as to whether an arbitrary choice of law is allowed. See Alfred E. Von Overbeck, \textit{Contracts: The Swiss Draft Statute Compared with the E.E.C. Convention, in CONTRACT CONFLICTS: THE E.E.C. CONVENTION ON THE LAW APPLICABLE TO CONTRACTUAL OBLIGATIONS: A COMPARATIVE STUDY} 269, 271 (P.M. North ed., 1982) (stating that there is no limitation on the parties' autonomy). \textit{But see} Beier, \textit{supra} note 3, at 165 (stating that the EEC Convention prohibits an arbitrary choice of law). As noted by Beier, however, this disagreement has more theoretical than practical importance since it is the rare instance where the parties cannot articulate some interest in the chosen law. \textit{Id.}

\textsuperscript{34} Giuliano and Lagarde, \textit{supra} note 26, at 371.
\textsuperscript{35} \textit{Id.}
\textsuperscript{36} \textit{Id.}
\textsuperscript{37} \textit{Id.}
\textsuperscript{38} \textit{Id.}
\textsuperscript{39} \textit{Id.}
\textsuperscript{40} \textit{Id.} This would simply be substituting a court's own judgment for that of the parties without resort to any specific guidelines. Even under a theory of being a penalty default provision, there exists too great a potential for arbitrariness.
N.C. J. INT'L L. & COM. REG. 4(1) and 4(2), discussed below in Part IV(A). 41

2. Limitations.

While Article 3(1) sets forth the broad grant of party autonomy, other articles of the EEC Convention cut back on this autonomy and give courts discretion, in certain instances, to determine which law to apply to the contract. Article 3(3) provides that if all relevant elements of the contract point to a single country, the parties' choice of law cannot evade the application of what the EEC Convention defines as that country's "mandatory rules." 42 The EEC Convention defines mandatory rules as those rules "which cannot be derogated from by contract." 43 Many antitrust laws are mandatory rules. 44 Therefore, if two German companies cross-licensed German technology for performance in Germany, Article 3(3) would prevent them from avoiding German antitrust law by choosing Swiss law. Other mandatory rules that often affect industrial property licenses include tax and currency exchange laws, technology transfer laws, and anti-competition laws. 45

Mandatory rules again appear in Articles 5, 6, 7, and 9(6). This paper discusses Articles 5, 6, and 7 since only these articles have relevance to industrial property licenses. 46 Article 5 is concerned with certain consumer contracts and states that the parties' choice of law in Article 3(1) cannot deprive a consumer of the protection afforded her by the mandatory rules of her country.

41 See discussion infra part IV.

42 EEC Convention, supra note 23, art. 3(3). Whether a rule is mandatory depends on the legal system to which that rule belongs. If that legal system does not permit that rule to be contractually avoided, the EEC Convention "does not allow its avoidance through contracting out of the system." David Jackson, Mandatory Rules and Rules of "Ordre Public," in CONTRACT CONFLICTS: THE E.E.C. CONVENTION ON THE LAW APPLICABLE TO CONTRACTUAL OBLIGATIONS: A COMPARATIVE STUDY 59, 65-66 (P.M. North ed., 1982).

43 EEC Convention, supra note 23, art. 3(3).

44 Beier, supra note 3, at 167-69.


46 Article 9(6) pertains to immovable property.
of habitual residence. With regard to industrial property rights, mandatory rules in Germany, for example, can make it impossible for a German licensee of a foreign trademark owner to incorporate a foreign law clause in its contracts with customers.\footnote{47} While Article 5 pertains to certain consumer contracts, Article 6 is concerned with employment contracts. Article 6 prevents the parties’ choice from depriving an employee of the protection offered him by the mandatory employment protection laws of the country where he carries out his work.\footnote{48} This occurs in the context of certain agreements not to compete. Further, the appearance of mandatory rules in Article 7 serves a different purpose and takes on a narrower meaning than its previous references.\footnote{49} While the term was previously used to limit party autonomy, its purpose in Article 7 is to provide a court with discretion to apply the laws of another country if certain conditions are met. The term here is narrower because the law in question must be one which the parties cannot derogate from by contract, and the legal system to which the law belongs must apply it regardless of the law applicable to the contract. Commentators describe Article 7’s subset of mandatory rules as international mandatory rules.\footnote{50} In Article 7(1), this means that, even if the law of Country A governs the contract,\footnote{51} a court has discretion to apply Country B’s law if (1) the situation has a close connection with Country B, (2) the law is mandatory as that term is defined in Article 3(3), and (3) Country B requires the law’s application no matter what law governs the contract. Similarly, Article 7(2) allows the forum in certain situations to apply forum law regardless of the proper law of the


\footnote{48} EEC Convention, supra note 23, art. 6.

\footnote{49} Id. arts. 7(1), 7(2); Philip, supra note 28, at 81. Philip argues Article 7 constitutes an “escape clause, making it possible in certain circumstances to avoid the application of the rules of the Convention.”Philip, supra note 28, at 100.

\footnote{50} North, supra note 24, at 19; Philip, supra note 28, at 100-01.

\footnote{51} This may be by party choice or, in the absence of that choice, through a court determination addressing that issue. Court determination absent party choice is discussed in Section IV infra.
contract.\textsuperscript{52} It recognizes that some forum interests are fundamental and refuses to restrict the application of forum law in these instances.\textsuperscript{53} Giuliano and Lagarde specifically mention that laws relating to cartels, competition and restrictive practices, and consumer protection are of this character.\textsuperscript{54} In considering whether to apply an international mandatory rule, the EEC Convention requires a court to take into account its "nature and purpose and \ldots the consequences of [its] application or non-application."\textsuperscript{55}

Article 16 provides the final limitation on party autonomy. It permits a forum to reject a chosen law on the grounds of "ordre public."\textsuperscript{56} Although similar to a mandatory rule, the difference is that a mandatory rule constitutes part of the process of selecting the applicable law while "ordre public" is a method of rejecting the applicable law.\textsuperscript{57} The forum may reject a chosen law only "if such application is manifestly incompatible"\textsuperscript{58} with forum public policy. Although the EEC Convention does not define "manifestly incompatible," it must mean something more than the fact that the chosen law differs in some aspects from forum law. Otherwise, any slight difference between the chosen law and forum law could potentially negate the parties' express choice, and the law applied would revert to that of the forum. This would severely undercut the notion of party autonomy embodied in Article 3(1). For industrial property licenses, areas that may rise to levels which may offend public policy include certain restrictions on the licensee,\textsuperscript{59} antitrust laws,\textsuperscript{60} and employee covenants not to

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\textsuperscript{52} EEC Convention, \textit{supra} note 23, art. 7(2). Again, the proper law of the contract could be by party choice or, in the absence of that choice, by a court determining which country's law is the proper law of the contract. \textit{Id.}

\textsuperscript{53} \textit{See id.}

\textsuperscript{54} Giuliano and Lagarde, \textit{supra} note 26, at 382. EEC Articles 85 and 86 and its Directive on Block Exemptions also meet this definition.

\textsuperscript{55} EEC Convention, \textit{supra} note 23, art. 7(1).

\textsuperscript{56} \textit{Id.} art. 16.

\textsuperscript{57} Jackson, \textit{supra} note 42, at 62.

\textsuperscript{58} \textit{Id.}

\textsuperscript{59} Cabanellas, \textit{supra} note 45, at 46. For example, export restrictions on the licensee have been held to violate public policy. \textit{Id.} \& n.31.

\textsuperscript{60} \textit{Id.} Many of the same laws considered mandatory under Article 3(3) are also mandatory as that term is used here. \textit{Id.}
compete.\textsuperscript{61}

\textbf{B. The United States and the Restatement (Second) of Conflict of Laws}

The legal framework in the United States resides in the \textit{Restatement (Second) of Conflict of Laws}.\textsuperscript{62} Most states have adopted the \textit{Restatement (Second)} for determining the applicable law of the contract.\textsuperscript{63} The \textit{Restatement (Second)} pertains to all "contracts" and applies that term to "legally enforceable promises and to other agreements or promises which are claimed to be enforceable but are not legally so."\textsuperscript{64} Industrial property licenses necessarily fall into this category because of the binding promises made between a licensor and licensee. The \textit{Restatement (Second)} also specifically mentions its applicability to international contracts.\textsuperscript{65}

\textit{1. Party Autonomy.}

The starting point for the \textit{Restatement (Second)} is section 187(1). It provides contracting parties with the freedom to explicitly choose the law governing their contract.\textsuperscript{66} Moreover, courts may find that the parties implied a choice-of-law if the contract uses legal terms or makes reference to specific legal doctrines unique to the law of a particular state or country.\textsuperscript{67} The

\textsuperscript{61} EUGENE F. SCOLES \& PETER HAY, CONFLICT OF LAWS 640-42 (1982).

\textsuperscript{62} RESTATEMENT (SECOND) OF CONFLICT OF LAWS (1971) [hereinafter RESTATEMENT (SECOND)].

\textsuperscript{63} Section 187 is universally accepted. See RESTATEMENT (SECOND), app. (1995) (citing cases). Every state to consider it has cited it favorably. \textit{Id.} Section 188 is almost universally excepted. \textit{Id.} Forty-six states adhere to section 188: Nebraska is split on the issue; Georgia and New Mexico use lex loci contractus, the place of contracting, and Rhode Island has yet to decide. \textit{Id.} A federal court will apply the conflicts principles of the State in which the court sits. SCOLES \& HAY, supra note 61, at 148.

\textsuperscript{64} RESTATEMENT (SECOND), supra note 62, Chapter 8 introductory note. The \textit{Restatement (Second)} explicitly covers four areas not covered by the EEC Convention: certain insurance contracts, status and capacity, negotiable instruments, and arbitration. \textit{Id.} §§ 193, 198, 214-217, 218-220.

\textsuperscript{65} \textit{Id.} § 10.

\textsuperscript{66} Section 187(1) reads as follows: "The law of the state chosen by the parties to govern their contractual rights and duties will be applied if the particular issue is one which the parties could have resolved by an explicit provision in their agreement directed to that issue." \textit{Id.} § 187(1).

\textsuperscript{67} \textit{Id.} § 187 cmt. a. See infra note 74 for a discussion on the Restatement's
1986 Revisions of the Restatement (Second) also explicitly provides that contracting parties may choose different laws to govern different issues of their contract. This permits flexibility. Contracting parties can take advantage of a state’s sophistication on a particular issue (Delaware corporate law for example) without otherwise having to subject all issues of the contract to that state’s law.

2. Limitations.

As with the EEC Convention, the Restatement (Second) places limitations on party autonomy. First, it requires a court to respect the parties’ selection unless the selected law has no “substantial” relationship to the transaction and there exists no reasonable basis for the parties’ choice. The “substantial” relationship prong reflects the approach taken by cases prior to the Restatement (Second). Although the earlier cases required only a “reasonable” relationship, the Restatement (Second) substantial relationship test has not resulted in a stricter, more functional approach. Connections which count as being substantial include: (1) place of contract formation; (2) place of performance; (3) domiciles of the licensor and licensee; and (4) licensor’s and licensee’s place of incorporation, place of corporate headquarters, and place of branch offices. Section 187(2)(a)’s reasonable basis prong permits parties to choose an unrelated law as long as they have a reasonable basis for doing so. This prong broadens the scope of party autonomy from what was allowed under prior case law. Comment f to section 187 gives as an example two parties selecting a country’s law based on their knowledge of the country’s law and on the law’s sophistication.

Under the Restatement (Second), a court may also reject the
parties' choice if (1) application of that law to an issue would violate the public policy of the state which has the most significant relationship to the transaction and (2) the "most significant" state has a materially greater interest in resolving the particular issue than the chosen state does. In deciding which state has the most significant relationship, section 187 refers to section 188. Section 188, in turn, considers the following co-equal factors in determining the state with the most significant relationship: the place of contracting, the place of negotiation, the place of performance, the location of the subject matter, and the domicile, residence, place of incorporation or place of business of the parties. However, if the place of negotiation and the place of performance occur in the same state, there is a rebuttable presumption that that state is the most significant state. This first prong resembles in many respects Article 16 of the EEC Convention, which rejects a choice of law on the grounds of ordre public. After satisfying the first prong, the second prong requires a comparison of the relative interests between the chosen forum and the state with the most significant relationship. In comparing interests, comment (g) states that the more contacts the transaction has with the chosen state, the stronger the fundamental policy of the "most significant" state must be to overcome the parties' choice.

While the Restatement (Second) deals with the law of the contract, international industrial property licenses concerning U.S. companies and/or technology are also subject to various U.S. laws and regulations. These include tax laws, antitrust guidelines, export restrictions, and foreign currency exchange practices.

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73 The term "state" in the Restatement (Second) is not used in the political sense. It refers to "a territorial unit with a distinct general body of law." RESTATEMENT (SECOND), supra note 62, § 3. Therefore, every State of the United States is a "state" under the definition, as are countries of the world. Id. cmt. a.

74 Id. § 187(2)(b).

75 Id. § 188(3).

76 Id. § 188 cmt. g.

77 See U.S. DEP'T OF JUST & FEDERAL TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (1995) [hereinafter ANTITRUST GUIDELINES].

78 For example, exporters of computer software with encryption capabilities may run afoul of government export regulations. See generally Dorothy E. Denning and William E. Baugh, Jr., Decoding Encryption Policy, SECURITY MANAGEMENT, Feb.
These laws are analogous to the EEC Convention's Article 3(3) definition of a mandatory rule since contracting parties cannot contract out of these laws and regulations. Depending on the circumstances, some would also qualify as an international mandatory rule. 80

C. Japan

Unlike the United States, Japan is a civil law country; thus, its conflict of laws rules reside primarily in statutes. The main source is in the Horei, or Act Concerning the Application of Laws. 81 It is the statute which codifies the Japanese private international laws. Because the rules within the Horei are brief, Japanese case law and, to a lesser extent custom, 82 aid in interpreting and supplementing the Horei.

I. Freedom of Contract.

As in both the EU and the United States, Japanese laws allow contracting parties to specify the law of the contract. 83 Licenses, including international industrial property licenses are within the definition of contract. 84 The scope of party autonomy is greater in Japan than in both the EU and the United States. Parties can freely choose a choice-of-law having absolutely no relationship to the

80 The ANTITRUST GUIDELINES specifically state that its principles apply to international licensing arrangements. ANTITRUST GUIDELINES, supra note 78, at 3. For example if a French licensor, as a condition to granting a license, forbids its U.S. licensee from selling, distributing, and using competing technologies, the ANTITRUST GUIDELINES would apply even if the applicable law was French law.

81 Law No. 10 of June 21, 1898, as amended by Law No. 7 of 1942 and Law No. 223 of 1947, Law No. 100 of 1964, and Law No. 27 of 1989 translated in ZENTARO KITAGAWA, DOING BUSINESS WITH JAPAN, Statute Volume, app. 3B (1995) [hereinafter cited as KITAGAWA]. The Horei does not apply to legal capacity, wills or familial relations involving support. Id. arts. 3, 34.


83 The parties' intention determines what country's law governs what the Horei call a "juristic act." Horei art. 7(1), translated in KITAGAWA, supra note 81. The Horei defines a juristic act as an act "which effects a legal consequence according to the manifestation of the intent of the parties...." Untiedt, supra note 82, at 200; see also KITAGAWA, supra note 81, Notes on Basic Legal Terms.

84 6 KITAGAWA, supra note 81, § 6.02[1].
transaction or the parties. For example, the parties could choose the law of the Bahamas simply because of the weather.

Consistent with practices in the EU and the United States, Japanese courts will attempt to ascertain from the circumstances of the case whether the parties implied a choice of law. The Japanese courts consider the following factors in making their determination: (1) the form and content of the contract; (2) the language that the contract was written in; (3) the parties’ nationalities; (4) the subject matter of the contract; and (5) the existence of jurisdiction or arbitration clauses.

2. Limitations.

The first limitation to party autonomy is the ever-present public policy limitation. Article 30 of the Horei provides that any provision of an otherwise applicable law will not apply if contrary to the “public order and good morals” of Japan. This doctrine, although seldom used, occurs most frequently in employment contract cases. Nevertheless, public policy limitations remain a potential tool to negate the application of an otherwise valid foreign law.

As in the United States, international industrial property licenses in Japan are subject to various regulations that the EEC Convention would call mandatory rules and international

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85 Untiedt, supra note 82, at 200-01. “[T]he parties’ choice is decisive, rather than merely a circumstantial factor in the determination of the governing law. Moreover, the Horei does not require ‘substantial contacts’ or ‘reasonable relationships’ or ‘good faith’ in the parties’ choice of governing law.” Yasuhiro Fujita, Transnational Litigation—Conflict of Laws, in 14 Kitagawa, supra note 81, at XIV 5-53. Japanese commentators, however, have proposed various limitations on this right. Untiedt, supra note 82, at 200-01.

86 Untiedt, supra note 82, at 208. Some courts have also looked to the conduct of the parties, including conduct after the contract is formed. Id. at 208 n.87 (citing Multi Product Int’l v. Tao Kogyo Co., Tokyo District Court, Hanreiibo, No. 863 (1977) at 100, Apr. 22, 1977).

87 Horei art. 33, translated in Kitagawa, supra note 81.

88 Untiedt, supra note 82, at 221. Untiedt cites a case in which a Japanese court sustained an unfair labor practices complaint even though his U.S. counterpart had been unsuccessful in seeking relief on the same claim in the U.S. The court reasoned that even though the intention of the parties was to apply U.S. law, the court nevertheless applied Japanese law to effectuate the Japanese public policy embodied in its labor laws. Id. n.170.
mandatory rules. In Japan, these include the Foreign Exchange and Foreign Trade Control Act (Revised FECA) and the Antimonopoly and Fair Trade Maintenance Act (Antimonopoly Act). Under the Revised FECA, parties to an international industrial property right or know-how license which concerns the import of technology must give prior notice to the Ministry of Finance and to the Ministry having jurisdiction over the industry involved. The Antimonopoly Act requires parties to international licensing agreements, where one party is Japanese, to report the agreements to the Fair Trade Commission for screening.

IV. The Law of the Contract in the Absence of an Express Choice

Since all three systems generously allow contracting parties to select the law governing their contract, one would expect that every international license contains a choice-of-law provision. An explicit choice would save courts the difficult task of making this determination and spare the parties the uncertainty of what law governs. However, some international licenses do not have a choice-of-law provision, not because the parties did not think about it beforehand but because they could not agree on the applicable law. Beier believes this to be more of a psychological obstacle than anything else. He argues that parties are often unable to agree on a choice of law out of suspicion of the other party’s law, fearful it contains unpleasant surprises for the unwary. In other situations, one or both of the parties might feel a loss of prestige if they were to agree to the law proposed by the

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89 EEC Convention, supra note 23, arts. 3(3), 7.
90 6 KITAGAWA, supra note 81, at 6-7. This law is an international mandatory rule as long as one of the parties is Japanese and the license involves the import of technology into Japan. Id. Japanese courts must apply this law irrespective of the proper law of the contract. Id.
91 Id. Certain restrictive clauses are illegal in Japan. In particular to patent licenses, most of these deal with antitrust concerns and unfair business practices. For example, licensors cannot usually restrict the licensee’s sale price of patented goods or require the licensee not to use competing technology after termination or expiration of the license. Yoshio Ohara, International Licensing, in 9 KITAGAWA, supra note 81, at ch. 8.
92 Beier, supra note 3, at 164.
93 Id.
other party.\(^94\) For whatever reason, whenever the contract is silent on the applicable law, the courts must make the determination. In doing so, courts strive to balance societal concerns for uniformity and predictability against notions of individual justice.\(^95\) Protecting societal interests requires this balance to tilt in the direction of applying rigid rules. On the other hand, notions of individual justice tilt the balance toward case-by-case adjudication. This section examines where the conflict principles of the EU, the United States, and Japan lie along this spectrum between “hard” and “soft” rules.

A. The EU

Compared to Japan and the United States, the EU takes a middle ground between rigid rules and case-by-case adjudication. Article 4(1) of the EEC Convention specifies that the proper law of the contract when the parties have not expressed a choice is the law of the country with the closest connection.\(^96\) Article 4(2) presumes the country most closely connected with the contract to be the residence\(^97\) of the party who renders the characteristic performance of the contract.\(^98\) Characteristic performance, in turn, refers to the contractual obligation that links the contract to the social and economic fabric of a country. It focuses on what makes the contract functional and not on “elements unrelated to the essence of the obligation such as the nationality of the contracting parties or the place where the contract was concluded.”\(^99\) The presumption of Article 4(2) is rebuttable if the characteristic performance cannot itself be ascertained or if, from the entirety of the circumstances, the contract is more closely connected with

\(^94\) Id.

\(^95\) Scoles & Hay, supra note 61, at 4.

\(^96\) EEC Convention, supra note 23, art. 4(1).

\(^97\) For individuals, the EEC Convention uses residence. Id. art. 4(2). For corporations, the EEC Convention uses central administration. Id.

\(^98\) EEC Convention, supra note 23, art. 4(2). For corporations, the residence is its central administration. Id.

\(^99\) Giuliano and Lagarde, supra note 26, at 374. But the licensee in industrial property licenses does much more than pay royalties. See infra notes 104-06 and accompanying text.
another country. But what is the characteristic performance for industrial property licenses?


Commentators have advanced three general positions for defining the characteristic performance of industrial property licenses: (1) the licensor's licensing of the industrial property, (2) the licensee's exploitation of the industrial property right, and (3) the exploitation of the industrial property right. This results in having the proper law of the contract be the law of the country where the licensor has its habitual residence or central administration, the law of the country where the licensee has its habitual residence or central administration, and the law of the protecting country, respectively. The first solution argues the characteristic performance is the licensor's act of licensing the industrial property. In this view, the licensor's grant is essential. It allows the licensee to engage in exploiting and using the industrial property as well as performing other related activities. One commentator noted that the characteristic performance is that of the licensor because the performance of the licensee is simply the payment of money. There is some support for this position in the report on the EEC Convention. It comments that the characteristic performance is not the remittance of money but "the granting of the right to make use of an item of property." One advantage of having the law of the licensor's residence be the law of the contract appears in the situation where a single license grant encompasses several countries. By following the situs of the licensor approach, only one law governs the contract.

The second approach regards the licensee's exploitation of the industrial property right as the characteristic performance. The proper law of the contract is therefore the law of the country where the licensee has its habitual residence or central administration. It

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100 EEC Convention, supra note 23, art. 4(5).
101 See generally Torremans, supra note 16.
103 Giuliano and Lagarde, supra note 26, at 374.
argues that the licensee’s performance is not simply the payment of money but includes other vital activities which give the contract meaning. It is the licensee who invests capital and manpower in the exploitation of the industrial property right. In many cases, the success of the contract depends on the licensee’s exploitation. Moreover, some commentators argue that it is the licensor’s obligations which are nonessential, since in many instances, they are limited solely to the receiving of money through royalty payments.\textsuperscript{105} In this scenario, the licensee’s successful exploitation is the most important issue for the licensor because its income depends on it. Proponents of this approach contend that this approach ascertains the true characteristic performance more often than the law of the licensor approach.\textsuperscript{106}

The final solution proposes that the characteristic performance is the exploitation of the industrial property right itself. Therefore, the law of the contract is the law of the protecting country. Proponents of this approach stress the link between the characteristic performance and the protecting country.\textsuperscript{107} They argue that often the most important exploitative acts take place in the protecting country, including the manufacture of the invention or product and the product’s initial introduction into commerce.\textsuperscript{108} The law of the licensor’s or licensee’s habitual residence is not acceptable because there is not necessarily a connection between the characteristic performance and their countries of residence. A company could conduct its business activities out of a country unrelated to where the exploitation occurs. Finally, proponents point to the advantage of having a single country’s law apply both to the contractual terms and to the interpretation of the industrial property right.\textsuperscript{109} They note that this precludes any confusion and determination as to whether a particular issue is contractual or

\textsuperscript{105} Id. According to Modiano, the licensor’s technical assistance, quality control, and assistance in the case of infringement does not change this determination. \textit{Id.} at 23-24.

\textsuperscript{106} \textit{Id.} at 25-26.

\textsuperscript{107} Beier, \textit{supra} note 3, 175-76.

\textsuperscript{108} \textit{Id.} at 176. For trademarks, the trademarking of the product also occurs most often in the protecting country. \textit{Id.}

\textsuperscript{109} Torremans, \textit{supra} note 16, at 403-04.
should be interpreted as part of the industrial property right.\(^\text{110}\)

2. **Strict Application May Be Impractical**

Adopting any one of the three approaches above would promote predictability and uniformity but could also reach unjust solutions in individual cases. For example, the law of the licensor and the law of the licensee approaches yield illogical results when the residence of these parties is unrelated to the industrial property right. Suppose a German patent holder licenses its German patent to another German company for manufacture and sale in Germany. Further, suppose the licensor’s corporate headquarters is located in the Cayman Islands, and the parties failed to specify a choice of law. A court, applying the law of the licensor approach, would conclude that Cayman Islands law is the proper law of the contract. Take the same example but this time suppose the licensee’s corporate headquarters is in the Bahamas. According to the law of the licensee approach, the laws of the Bahamas would govern the contract. The problem with these two approaches is that sometimes the habitual residence or central administration of the parties is unrelated to the characteristic performance. Utilizing the laws of the protecting country can also reach an unsatisfactory result. Beier gives the example of two German companies concluding a license contract for the exploitation of an invention trademarked in Korea.\(^\text{111}\) The law of the protecting country approach dictates that Korean law governs the contract, but the more appropriate law should be the law familiar to both parties and not the unfamiliar law of the protecting country. In this instance, the parties’ common place of residence outweighs where the exploitation occurs. These three examples evince the problem of following one approach in all situations. The EEC Convention thus made the characteristic performance presumption rebuttable.

3. **Article 4(5).**

Article 4(5) is the EEC Convention’s attempt to balance, on the one hand, predictability and uniformity, and, on the other, a sense of fairness on an individual level. It embodies this balance

\(^{110}\) See *supra* note 22 and text accompanying *supra* notes 18-22.

\(^{111}\) Beier, *supra* note 3, at 180.
by allowing a court to rebut the presumption of Article 4(2) if the characteristic performance cannot be ascertained or if, from the entirety of the circumstances, the contract is more closely connected with another country.\textsuperscript{112} Therefore, a court can use Article 4(5) when the general application of any of the three approaches fails to achieve notions of fairness in a particular case. After invoking Article 4(3), however, a court cannot then make an arbitrary choice of law. It is still bound by Article 4(1)’s requirement to determine the proper law of the contract by reference to the law of the country with the closest connection. Unlike the extreme examples above, the general approaches do not usually yield three different outcomes. The approaches point to at most two different laws, usually that of the licensor and licensee. The court could then base its decision on which law garnished two votes using the general approaches, or it could weigh the parties’ obligations against one another. In many cases, one party’s obligations are clearly more essential than the other party’s obligations. Ulmer cites as an example the situation where the licensee has a duty to exploit the license or is granted an exclusive license.\textsuperscript{113} He argues that the characteristic performance here would be the conduct of the licensee. Article 4(5) combined with the rebuttable presumption of Article 4(2) take the middle-of-the-road approach in tackling the absence of party choice.

\textit{B. The United States}

Of the three systems, the \textit{Restatement (Second)} approach is the "softest," reflecting a preference for case-by-case adjudication instead of predictability and uniformity. Section 188(1) of the \textit{Restatement (Second)} provides that the law of the contract is the law of that state which has the most significant relationship to the transaction and the parties. In making this determination, section 188(2) directs the court’s attention to the five following contacts:

\begin{itemize}
  \item[(a)] the place of contracting,
  \item[(b)] the place of negotiation of the contract,
  \item[(c)] the place of performance,
\end{itemize}

\textsuperscript{112} EEC Convention, \textit{supra} note 23, art. 4(5).
\textsuperscript{113} ULMER, \textit{supra} note 10, at 101-02.
(d) the location of subject matter of the contract, and
(e) the domicile, residence, nationality, place of incorporation and place of business of the parties.\(^\text{114}\)

Section 188 contains only one semi-fast rule. Where the state of performance coincides with the state where the parties negotiated the contract, section 188(3) presumes that this common state’s law governs the contract.\(^\text{115}\) Otherwise, section 188 offers little guidance on the relative weight of each contact, except to mention that courts should evaluate these contacts according to their relative importance with respect to the particular issue.\(^\text{116}\)

The issues contemplated here are contractual. The law of the protecting country governs issues arising directly from the industrial property right as such. Nevertheless, a court should pay attention to the fact that the contract’s underlying subject matter is industrial property. The Restatement (Second) realizes the importance of the type of contract in other contexts,\(^\text{117}\) although not licensing contracts. For example, the insured’s domicile\(^\text{118}\) is the most important contact in life insurance contracts because of the forum’s interest in protecting its residents against adhesion contracts.\(^\text{119}\) Similarly, contacts (c)\(^\text{120}\) and (e) assume greater importance for international industrial property licenses. These contacts encompass all of the possible countries that could possess the most significant relationship. Contacts (a) and (b), by themselves, often bear no relation to the transaction or the parties.\(^\text{121}\) They should therefore be disregarded. Contact (d)

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\(^{114}\) Restatement (Second), supra note 62, § 188(2).

\(^{115}\) Id. § 188(3).

\(^{116}\) Commentators have criticized section 188 because it provides so little guidance as to how much weight to give the various criteria. Scoles & Hay, supra note 61, at 652.

\(^{117}\) Restatement (Second), supra note 62, §§ 189-197.

\(^{118}\) Referring to contact (e).

\(^{119}\) Restatement (Second), supra note 62, § 192 cmt. c.

\(^{120}\) The place of performance is interpreted broadly and includes the licensor and licensee’s performance.

\(^{121}\) These factors are remnants from the Restatement (First) of Conflict of Laws, which incorporated a “hard” rule. In the absence of choice, the place of contracting was the proper law of the contract. Restatement (First) Of Conflict Of Laws, § 332 (1934).
simply does not make sense for industrial property because of its intangible nature. It should also be ignored. Compared to the EEC Convention's approach, the *Restatement (Second)* contacts cover more countries than the characteristic performance approach covers. Their focuses are different. While the *Restatement (Second)* five contacts examine the contract from external factors, the EEC Convention looks at the contract from the inside. The most striking example is that the EEC Convention excludes from consideration the nationality of the parties, the place where the contract was concluded, and the place of contract negotiation.  

More differences appear during the next step of the *Restatement (Second)* analysis. Section 188(2) instructs courts to analyze the contacts in light of the principles enunciated in section 6. There are seven:

(a) the needs of the interstate and international systems,
(b) the relevant policies of the forum,
(c) the relevant policies of other interested states and the relative interests of those states in the determination of the particular issue,
(d) the protection of justified expectations,
(e) the basic policies underlying the particular field of law,
(f) certainty, predictability and uniformity of result, and ease in the determination and application of the law to be applied.

As with section 188(2), section 6 fails to provide any indication as to the relative importance of each principle. Proper interpretation, however, is not simply guesswork. The official comments accompanying sections 6 and 188 provide some guidance as to how to apply these principles. Principle 6(e) calls attention to basic policies underlying the particular field of law at issue. Probably the most important policy in contract law is protecting the expectation of the parties. This simply restates principle 6(d). The problem with applying this principle to the

123 *Restatement (Second), supra* note 62, § 6.
124 The factors listed vary in importance from field to field and from issue to issue. *Id.* § 188 cmt. b.
125 *Id.*; E. Allan Farnsworth, 2 Farnsworth on Contracts 305 (1990).
choice-of-law issue is that the parties have not expressed a choice. There is no expectation to protect. As to all other contractual issues, however, the court should choose, out of the possible laws, the one which upholds the validity of the contract and its individual terms. Parties enter into contracts with the expectation that the contract will be valid, binding upon them, and enforced in accordance with its terms.126

Principles 6(b) and 6(c) reflect the influence of government interest analysis.127 This conflicts theory is premised on the idea that with every state law there exists a corresponding state policy which that law implements. Every state, therefore, has a governmental interest in effectuating the policies underlying its own laws. When asked to apply a foreign law, a court should first determine the policies of the interested jurisdictions’ law and the policies of the forum. It should then examine the circumstances in which these laws were meant to apply. If the potentially applicable laws do not differ or if one country’s law policy does not call for its application in this particular situation, there is no conflict. This situation presents what Currie called a "false conflict," and the court should apply the country’s law which actually applies.128 A true conflict appears when the potential laws not only differ but also the underlying policies of each call for its application. In a true conflict situation, Currie would apply the law of the forum.129 In this way, government interest analysis always leads to applying the law of the forum unless the underlying policy of forum law does not require its application.130 Since the Restatement (Second) embodies government interest analysis, too much emphasis on principles 6(b) and 6(c) may lead U.S. courts to apply forum law when the contracting parties have not expressed a choice.131

126 RESTATEMENT (SECOND), supra note 62, § 188 cmt. b.
127 The leading proponent of government interest analysis is Brainerd Currie.
130 Currie would invoke the doctrine of forum non conveniens in these rare situations to avoid applying a foreign law with which the court is unfamiliar. CURRIE, supra note 128, at 356-58.
131 SCULES & HAY, supra note 61, at 665.
The problem with government interest analysis in the context of contracts is that it looks at factors external to the contract. It can therefore derogate from the concept of protecting the parties' expectations in favor of state policies. This is especially true in the context of industrial property licenses, where countries have expressed a significant interest in having their own laws apply to the contract. By applying their own laws to the contract, countries can (1) increase the bargaining power of local technology purchasers; (2) protect local innovation and technology; (3) improve both the quality and assimilation of imported technology; (4) limit industrial property protection for foreign parties; (5) regulate foreign investments made in local technology; and (6) protect local industry from abusive, unreasonable, and excessively burdensome contract terms. These interests favor the forum in applying its own law. By not articulating a choice, contracting parties take the risk that courts will simply apply the law of the forum as the proper law of the contract, especially in international industrial property licenses. A court has considerably more discretion in determining how much weight to give state interests when the parties have not expressed a choice. In contrast, a court may reject the parties' expressed choice only when it violates public policy. State concerns, however, have not generally risen to the level of "public policy."

Section 6 also manifests another conflicts theory known as choice-influencing considerations. This conflicts theory also requires the weighing of interests, although it broadens its analysis to include interests other than those of the forum. These include: maintenance of interstate and international order, predictability of

132 Cabanellas, supra note 45, at 41; Beier, supra note 3, at 168. Other interests include: (1) improving the balance of payments; (2) controlling foreign exchange remittances; (3) preventing tax avoidance; (4) preventing packing licensing; and (5) protecting local employment. Cabanellas, supra note 45, at 41. The foreign trade, restrictive trade practices, and foreign exchange laws usually constitute mandatory laws to all technology licenses. Beier, supra note 3, at 168. The parties cannot, therefore, contract out of them. Id.

133 This result is not necessarily detrimental since forum law could be beneficial to one's case.

134 RESTATEMENT (SECOND), supra note 62, § 187 cmt. g.

135 These considerations were first put forth by Robert Leflar. ROBERT A. LEFLAR, AMERICAN CONFLICTS LAW (3d. 1977). The Restatement (Second) adopted all but one of his choice-influencing considerations. SCOLES & HAY, supra note 61, at 36.
results, and simplification of the judicial task. These correspond to principles (a), (f), and (g), respectively. Principle (f) is indifferent as to what law to apply. It only favors a "hard" rule so that all contracting parties know what to expect if they do not specify a law. Principle (g) leans in the direction of applying the law of the forum. Comment (j) to section 6, however, cautions that courts should not overemphasize this principle because to do so would sacrifice desirable results in many instances. Finally, principle (a) emphasizes that choice-of-law rules should strive to make interstate and international systems function well together.

Additionally, these rules should seek to further harmonious relations and commercial interchange between the various countries. Principle (a) can support any position given certain underlying facts; but applying forum law satisfies this principle in every situation because it precludes a forum from interpreting and/or applying a law with which it is usually not familiar.

Although the methodology of the Restatement (Second) is simple, its application is not. A court should first determine all of the potentially applicable laws by applying section 188(2). For international intellectual property licenses, contacts (c) and (e) are the most important. Each different possibility should then be evaluated according to the section 6 principles. The law that best promotes section 6 principles should be the proper law of the contract. Although sounding simple, difficulty occurs when weighing section 6 principles because they conflict with each other. Which principles count more? Should protecting the parties' expectations carry more weight than state interests? These questions go unanswered. Because of this difficulty, many U.S. courts ignore the section 6 principles and simply use section 188(2) to count contacts. Whichever state has the most tallies gets its law applied. This confusion has led the Restatement

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136 Id.
137 Id. at 209 ("It will usually be easier for the forum court to apply its own law than any other."). Id.
138 RESTATEMENT (SECOND), supra note 62, § 6 cmt. j.
139 Id. § 6 cmt. d.
140 Id.
(Second) to represent the "softest" of the three approaches. The EEC Convention's approach limits its analysis to considering the characteristic performance of a contract. There is no consideration of forum interests or of other interested countries. Moreover, the EEC Convention does not consider choice-influencing considerations. The addition of government interest analysis and choice-influencing considerations in the Restatement (Second) creates a situation whereby a U.S. court can reach nearly any result using the motley medley of principles and contacts embodied in sections 6 and 188(2).  

C. Japan

In contrast to the closest connection approach of the EEC Convention and the most significant relationship rule of the Restatement (Second), Japan's conflict of laws applies a "hard" inflexible rule. In the absence of party choice, the proper law of the contract is the country's law where the contracting took place. Where the place of contracting occurred in different places or when the place of contracting cannot be ascertained, the country where the offer was made or dispatched is considered the place of contracting. Finally, if the offeree, at the time of acceptance, does not know from where the offer was made, the place of the offeror's domicile is deemed to be the place of contracting.

The rationale behind this rule is that the contracting parties would have chosen the country's law where the contracting occurred if they had considered it. As explained before, the reason contracting parties do not express a choice in international industrial property licenses is not because they have not considered it but because they could not come to an agreement on this point. Applying the rule in all cases invariably frustrates the

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142 Id. at 717.
143 Horei art. 7(2), translated in KITAGAWA, supra note 74.
144 Horei art. 9(2), translated in KITAGAWA, supra note 74; Fujita, supra note 85, at 5-54, 5-55.
145 Id.
146 Untiedt, supra note 82, at 209.
147 See text accompanying supra notes 91-93.
expectations of some contracting parties. The place of contracting
will in many cases have only a superficial relationship to the
industrial property license and to the parties. Moreover, this
“hard” rule ignores the significant and legitimate interests of other
countries which may have greater relation to and interest in the
contracting parties, the subject of the contract, or the effects of the
contract.

Despite its harshness in individual cases, the rule has its
advantages. The most important being that it provides
predictability, uniformity, and certainty to contracting parties. The
rule precludes a court from having to identify the concerns of
interested jurisdictions, the concerns of the forum, and the interests
of the parties. Additionally, a court does not confront the
difficulty of weighing and comparing the different issues against
one another. As evinced by the Restatement (Second) approach,
this comparison is no easy task. Finally, the rule denies a court the
luxury of preferring the law of the forum.

V. Forum Shopping

Section IV discussed the different approaches taken by the
EEC Convention, the United States, and Japan when contracting
parties fail to express a choice-of-law in their industrial property
license. Along the spectrum between soft and hard rules, the
Restatement (Second) approach is the “softest,” preferring case-by-

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A. The Scenario

Suppose the following fact pattern: two companies, Japanese
company Alpha and French company Beta, agree on a licensing

148 Even so, contracting parties should be aware that in international licenses, there
might be a slight tendency for U.S. courts to apply forum law because of the existence in
the Restatement (Second) of government interest analysis.
deal in which Alpha agrees to license exclusively the remaining five years of its U.S. patent on widgets to Beta for exploitation in the United States. Company representatives for Alpha and Beta negotiated the deal in Singapore while both were attending a widget manufacturing conference. According to the terms of the deal, Beta will manufacture the widgets in France and then ship them to its subsidiary in the U.S. where they will be eventually sold. In exchange for a lower royalty rate, Alpha agrees not to provide Beta with any technical assistance. The patent license contains a standard clause regarding third-party infringement. It provides, in pertinent part, that "if any third party shall, in the reasonable opinion of either party, infringe the licensed patent, such party shall promptly notify the other party..."149 Alpha and Beta could not agree on a choice-of-law. A graphic illustration here is useful.

Cutthroat is a U.S. company interested in widgets. It knows that Alpha owns the widget patent, but it also knows it expires in five years. To be able to sell widgets the moment the patent expires,

expires, Cutthroat buys all the materials for making them in the U.S. and even partially assembles them in its plant in Texas. Cutthroat sends the partially-assembled widgets to Mexico where the final assembly occurs. Alpha, the former employer of Cutthroat's CEO, is aware of Cutthroat's activity but does not inform Beta because under U.S. patent law Cutthroat's actions do not constitute patent infringement. French patent law, however, considers Cutthroat's activities infringing.

The day after Alpha's patent expires, Cutthroat begins selling its widgets in the U.S. and makes $10 million its first year. Beta discovers Cutthroat's activity a year later, but Cutthroat has since gone bankrupt. Beta also uncovers Alpha’s knowledge of Cutthroat's activity and sues Alpha for breach of contract.

B. The Problem

Because of the different choice-of-law approaches taken by the three systems, the proper law of the contract is dependent on where Beta decides to sue. If Beta sues in Japan, a Japanese court will look to the place of contracting to determine the proper law of the contract. In this case, the place of contracting was Singapore; therefore, the court will use the law of Singapore to interpret the contract.

If Beta sues in France, a French court will use the EEC Convention's characteristic performance approach to determine the proper law of the contract. Using the licensor's actions as the characteristic performance, the proper law of the contract would be Japanese law. If the licensee's actions are characteristic, the resulting law of the contract would be France. Finally, if the

150 See Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518, 532 (1972) (stating that partial assemblies that have no significant noninfringing purpose constitute patent infringement). For purpose of this example, assume that the partial assembly has significant noninfringing uses.

151 ULMER, supra note 10, at 13.

152 This issue here should be governed by contract law. First, it concerns an issue of breach. Second, it is a question of interpretation. Did the parties intend for infringement to mean infringement of the U.S. patent or infringement as that term is used in France? Finally, this is not an infringement suit. Beta is suing Alpha not Cutthroat.

153 In actuality, the first to file suit and where he files will determine which conflict of laws principles get applied and hence will determine the proper law of the contract.
characteristic performance is exploitation of the industrial property right, that exploitation occurred in the U.S., and, therefore, U.S. contract law should be the proper law of the contract. The French court would probably invoke Article 4(5) in this case because the United States and France have much closer connections to the situation than Japan. Of the two, French law would seem the better choice under the EEC Convention. The obligations of Beta weigh much more heavily than those of Alpha. Beta manufactures, ships, sells, and exploits the invention. Alpha’s actions, on the other hand, are passive, limited primarily to receiving royalties. The EEC Convention discounts the significance of royalty payments in favor of the performance for which the payment is due. Additionally, despite the eventual sale occurring in the U.S., certain commentators would find the fact that the license is exclusive and the fact that the manufacturing occurred in France persuasive enough to make French law the proper law of the contract.

Finally, if Beta sues in the United States, a court will use the Restatement (Second) most significant relationship rules. Applying section 188(2)’s contact factors yields the following candidates: Singapore, the United States, France, and Japan. Section 188(3)’s presumption does not apply since the place of performance differed from the place of negotiation. The next step is to analyze the contact points in light of Section 6 principles. Principles (d)-(f) lean toward using either French or Japanese law as the proper law of the contract since the contracting parties probably did not expect to have U.S. contract law govern their agreement. Expecting U.S. patent law to govern Alpha’s patent is reasonable, but expecting U.S. contract law to govern breach between two non-American company may not be. Principles (a) and (g), on the other hand, tilt in favor of U.S. law as the proper

154 Giuliano and Lagarde, supra note 26, at 374.

155 Ulmer, supra note 10, at 101-02; Modiano, supra note 104, at 23.

156 They are: (a) the needs of the interstate and international systems; (b) the relevant policies of the forum; (c) the relevant policies of other interested states and the relative interests of those states in the determination of the particular issue; (d) the protection of justified expectations; (e) the basic policies underlying the particular field of law; (f) certainty, predictability and uniformity of result; and (g) ease in the determination and application of the law to be applied. Restatement (Second), supra note 62, § 6(2).
law of the contract. Using U.S. law best serves the needs and harmony of the international system because it would not require a U.S. court to adjudicate or interpret French or Japanese law. It would therefore be simpler for a U.S. court to apply U.S. law. Moreover, since U.S. patent law governs all disputes concerning the patent right itself, using U.S. contract law would subject the license agreement to only one law. Finally, the United States is a neutral forum in that neither party would have to go to the other’s home country.

The other Section 6 principles require examining the interests of the forum and interested countries. As for the forum, the U.S. has an interest in its patent holders being treated fairly and having their U.S. patents rights protected.157 The U.S. also has an interest in resolving the dispute between the parties since it was the center of all major activity. Beta’s sales are in the U.S. as are Cutthroat’s. Cutthroat’s partial assembly of the widgets also occurred in the U.S., and the underlying subject matter of the license is a U.S. patent. Finally, the U.S. has an interest in maintaining its integrity as a global marketplace. Predictability is crucial in this regard. Allowing foreign law to govern this situation when there are so many contacts with the U.S. would create unpredictability and undermine the integrity of the U.S. marketplace. Although both Japan and France have a general interest in protecting its citizens in license agreements, both parties directed their actions and activities toward the United States. Alpha owns and licenses a U.S. patent, and Beta exploits that patent in the United States. It thus would not be unreasonable to have U.S. law govern their license agreement. After following the Restatement (Second) approach, a court would conclude that the United States is the country with the most significant relationship to the transaction and parties and apply U.S. law to the international industrial property license.

Filing in three countries yields three different results. All caused, first, by the parties not selecting a choice of law, and

157 Both the Paris Convention and TRIPS mandate national treatment for Alpha as long as it meets all of the formalities of U.S. patent law. Paris Convention, supra note 11, art. 2; TRIPS Agreement, supra note 11, art. 3, 33 I.L.M. at 85-86; Id. art. 41, 33 I.L.M. at 99-100.
second, by the lack of uniformity between the choice-of-law rules of the three systems. As a result, this situation may encourage Beta to forum shop for the country which will apply the law most favorable to it. Beta must keep in mind, however, that each country has its own rules for interpreting contracts and for consequences of breach.\textsuperscript{158} There may also be a bias in a particular forum for a party from that forum. A French court may be more inclined to find that the term infringement includes what would be considered infringement in France, especially when the aggrieved party, Beta, is a French corporation. In any event, leaving the law of the contract up to where the suit is filed and then to subsequent court determination can turn out to be a risky proposition.

VI. Conclusion

As explored in detail in Part V, differences in the choice-of-law approaches cause problems when parties fail to articulate a clear governing law. Even within the countries themselves, confusion exists regarding how to determine the law of the contract. This will continue until choice-of-law rules become uniform and cease being territorial. The easiest method of avoiding this confusion altogether is to explicitly provide a choice-of-law clause in every industrial property license. This cannot be stressed enough. Failure to do so can result in unexpected consequences, as illustrated above in Part V.

Another point to remember is that the law of the contract governs only certain aspects of the industrial property license. It governs the formation, termination, interpretation and validity, rights and duties of the parties, the mode of performance, and the consequences of breaches. Issues relating to the industrial property right itself are subject to the law of the protecting country. This dual approach for industrial property licenses exists

\textsuperscript{158} Differences exist between the three laws, especially since Japan and France are civil law countries while the U.S. is a common law country. As one commentator noted, Faced with a problem in contract, the Common lawyer is as likely as not to try to solve it with an implied term. But the Civil lawyer will probably resort to a rule, whether it is a broad and fundamental precept... or one derived from the nature of obligation or of contract in general... or finally, one derived from the nature of the contract in question.

because there is no such thing as an international patent or trademark. Each country determines the conditions prior to the granting of an industrial property right and, for the most part, these conditions are unique to the granting country. There have been efforts to harmonize industrial property and TRIPS is a good first step. There is still, however, a long way to go. Until then, licensing will continue to play a significant role in penetrating foreign markets.