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INTERNATIONAL BAR ASSOCIATION

LITIGATION COMMITTEE

SECOND REPORT TO THE HCCH SPECIAL COMMISSION ON THE RECOGNITION AND ENFORCEMENT OF FOREIGN JUDGMENTS

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INTRODUCTION

The IBA Litigation Committee ("Litigation Committee") has been pleased to be invited to observe the proceedings at the meetings of the Special Commission on the Recognition and Enforcement of Judgments (the "Judgments Project").

The Litigation Committee represents 2397 lawyers in 113 jurisdictions and its stated aim, in common with the IBA as a whole, is to work towards the progress and development of international law.

The further observations in this second report refer to the text of the February 2017 draft Convention and relate to the following specific provisions:

Article	Issue	Page Number
Article 2(3)	**The exclusion of "arbitration and related proceedings**	3-5
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This document adds to those comments articulated in our comprehensive Report dated 10 February 2017.

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ARTICLE 2(3)

ARTICLE 2(3) - The exclusion of "arbitration and related proceedings
Article 2(3) states: "*This Convention shall not apply to arbitration and related proceedings*". According to the **Preliminary Explanatory Report** (No 7 of October 2017, para. 54): "*The exclusion of arbitration also covers the effects that an arbitration agreement or an arbitral award may have on the provisions of the draft Convention, in particular Article 4(1), i.e., the obligation to recognise and enforce judgments given in another States. Thus, the requested State **may refuse the recognition and enforcement of a judgment given in another State if the proceedings in this State were contrary to an arbitration agreement**.*" (emphasis added)
Article 8(1) states, in relevant parts *"Where a matter to which this Convention does not apply (…) arose as a preliminary question, the ruling on that question shall not be recognised or enforced under this Convention."* This provision does not apply to the issue addressed here.
Article 8(2) states *"Recognition or enforcement of a judgment may be refused if, and to the extent that, the judgment was based on a ruling on a matter to which this Convention does not apply (…)."* (emphasis added). According to the **Preliminary Explanatory Report** (Document No 7 of October 2017, para. 270) "*This provision adds an additional ground for nonrecognition to those contained in Article 7.*" The Hartley/Dogauchi Report (para. 200) clarifies that this exception should be used only where the court of the requested State would have decided the preliminary question in a different way.
Article 7(1)(d) states in relevant parts: "*Recognition or enforcement may be refused if the proceedings in the court of origin were contrary to an agreement, or a designation in a trust instrument, under which the dispute in question was to be determined in a court other than the court of origin.*" The **Preliminary Explanatory Report** (No 7 of October 2017, para. 249) considers that this provision does not covers arbitration agreements, but only choice of court agreements.

Current proposals
The delegation of the United States of America proposed to have Article 7(1)(d) amended as follows: "*Recognition or enforcement may be refused if the party resisting recognition or enforcement establishes that the judgment resulted from a proceeding undertaken contrary to* *(i) an agreement, or* *(ii) a designation in a trust instrument,*

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under which the dispute in question was to be determined exclusively in another forum." (**Work. Doc. No 95**). This drafting would put the burden of proof that the Judgment was rendered in violation of an agreement to arbitrate on the defendant's shoulders.

The People's Republic of China made a similar proposal to reword Article 7(1)(d) as follows: "*Recognition or enforcement may be refused if the proceedings in the court of origin were contrary to an arbitration agreement according to which a timely objection to the court's jurisdiction had been raised, unless the agreement is null and void, inoperative or incapable of being performed."* (**Work. Doc. No 120**). Apparently, the People's Republic of China would grant the power to decide whether an agreement is null and void, inoperative or incapable of being performed to the court addressed.

In **Work. Doc. No 147** (20 February 2017), the European Union proposes to add a general provision reserving the application of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards as follows: "*This Convention shall not affect the application of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards*". According to the same proposal, the Explanatory Report to this general provision should specify that "*This Convention further does not apply to a judgment given by a court of a Contracting State as to whether or not an arbitration agreement is null and void, inoperative or incapable of being performed".* This explanation corresponds to Article 8(1), which excludes the recognition and enforcement of preliminary rulings in matters to which the Convention does not apply. However, this proposal does not address the issue of the possible recognition and enforcement under the Convention a Judgment deciding, as a preliminary question, that an arbitration agreement is null, void or inoperative.

Key issue
Is it desirable to completely exclude from circulation under the convention any Judgment where the Judge has decided, as a preliminary question, that an arbitration agreement is null and void, inoperative or incapable of being performed?

Comments:

Both the US and the Chinese proposals, which are globally similar as regards arbitration, do not specify which law would apply to the determination that (i) the proceedings before the issuing court were "*undertaken contrary to an agreement*" (**Work. Doc. No 95**) or (ii) "*the agreement is null and void, inoperative or incapable of being performed*" (**Work. Doc. No 120**). Article II(3) of the 1958 New York Convention does not provide an answer to this question but only states: "*The court of a Contracting State, when seized of an action in a matter in respect of which the*

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parties have made an agreement within the meaning of this article, shall, at the request of one of the parties, refer the parties to arbitration, ***unless it finds that the said agreement is null and void, inoperative or incapable of being performed***" (emphasis added). Article V(1)(a) of the 1958 New York Convention may be consulted for guidance despite not directly applying to this question (as it only governs the recognition and enforcement of international arbitral awards, not court decisions ruling despite an arbitration agreement). This provision states: "*Recognition and enforcement of the award may be refused, at the request of the party against whom it is invoked, only if that party furnishes to the competent authority where the recognition and enforcement is sought, proof that (…)* ***said agreement is not valid under the law to which the parties have subjected it*** *or, failing any indication thereon, under the law of the country where the award was made*" (emphasis added).

Should a provision preventing recognition and enforcement of Judgments rendered "contrary to an arbitration agreement" be included in the Hague Judgments Convention, it should also identify the law that the court addressed should apply to determine whether or not the Judgment in question was indeed contrary to an agreement. As arbitration is a matter where the parties' contractual freedom prevails as a rule, the law elected by the parties to govern their agreement should apply as also prescribed in the 1958 New York Convention. In the absence of such choice of law agreement, the Convention should prescribe a fallback option, which should ideally not be the law of the court addressed to avoid contradictory results should enforcement be sought in different jurisdictions. A good candidate may be the law of the (contemplated) seat of arbitration (*lex arbitri*). Failing a presumed lex arbitri (*e.g.* because the parties failed to designate the place of arbitration in the disputed arbitration clause), the court addressed should apply its conflict of laws rules (if any) or if none its domestic law. This solution is in line with the currently prevailing opinion among arbitration scholars, at least in Switzerland[1].

In our opinion, a general clause such as the one proposed in **Work. Doc. No 147** would not bring the desired clarity, for various reasons. First, it overlaps to a large extent with the already existing Article 2(3) – stating that "*The Convention shall not apply to arbitration and related proceedings"* – and with the related passage in the **Preliminary Explanatory Report** (No 7 of October 2017, para. 54). Moreover, most of the law-making process would occur in the accompanying Explanatory Report to the proposal, not in the provision itself (**Work. Doc. No 147**). This is unsatisfactory as the Explanatory Report is not binding on the parties (contrary to the Convention itself) and, more problematically, cannot foresee and address all the hypotheses where a Judgment would conflict with arbitration.

Finally, one could also contemplate completely excluding from circulation under the Convention any Judgment where the Judge has decided, as a preliminary question, that an

[1] See BERGER / KELLERHALS, *International and Domestic Arbitration in Switzerland*, 2nd ed. 2010, para. 311, pp. 85-86

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arbitration agreement is null and void, inoperative or incapable of being performed. This option would give great regards to arbitration, but would in our opinion excessively limit the circulation of judgments. Moreover, it would go beyond what is generally accepted by the international comity with respect to the interplay between courts and arbitration, as evidenced in Article II(3) of the 1958 New York Convention. For these reasons, this drastic solution should in our view be avoided.

Proposals
• Should a provision preventing recognition and enforcement of Judgments rendered "contrary to an arbitration agreement" be included in the Hague Judgments Convention, it should also identify the law that the court addressed should apply to determine whether or not the Judgment in question was indeed contrary to an agreement. • The Convention should not exclude from circulation any Judgment where the Judge has decided, as a preliminary question, that an arbitration agreement is null and void, inoperative or incapable of being performed.

ARTICLE 5(1)(g)

ARTICLE 5(1)(g) - The meaning of "purposeful and substantial connection"
A judgment is eligible for recognition and enforcement if one of the following requirements is met - (. . .) g. the judgment ruled on a contractual obligation and it was given in the State in which performance of that obligation took place or should have taken place under the parties' agreement, or, in the absence of an agreed place of performance, under the law applicable to

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the contract, unless the defendant's activities in relation to the transaction clearly did not constitute a purposeful and substantial connection to that State[.]

Key Issues
Meaning of "purposeful and substantial connection" with the State of Origin.

Comments:

By way of background, in our prior comments in February 2017, we had proposed for consideration a definition of the term "purposeful" as meaning "of such a character that the defendant reasonably should have anticipated being subject to jurisdiction in [the relevant] State." In the meantime, while the wording of this provision in the draft convention has changed, the operative language ("purposeful and substantial connection") has not changed, and there continues to be no definition of "purposeful" in the latest draft of the convention.

Proposals
Article 5(1)(g) should be redrafted as follows: *1. A judgment is eligible for recognition and enforcement if one of the following requirements is met -* *(. . .)* *g. the judgment ruled on a contractual obligation and it was given in the State in which performance of that obligation took place or should have taken place under the parties' agreement, or, in the absence of an agreed place of performance, under the law applicable to the contract, unless the defendant's activities in relation to the transaction clearly did not constitute a purposeful and substantial connection to that State[.] In this paragraph, "purposeful" means of such a character that the defendant reasonably should have anticipated being subject to jurisdiction in that State;*

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ARTICLE 5(1)(o)

ARTICLE 5(1)(o) - Judgments ruling on a counterclaim
1. A judgment is eligible for recognition and enforcement if one of the following requirements is met – [...] (o) the judgment ruled on a counterclaim – (i) to the extent that it was in favour of the counterclaimant, provided that the counterclaim arose out of the same transaction or occurrence as the claim; (ii) to the extent that it was against the counterclaimant, unless the law of the State of origin required the counterclaim to be filed in order to avoid preclusion.

Key issues:
• Whether the wording of this provision could cause practical difficulties, if a Judgment contains different rulings both in favour and against a counterclaimant; • Could the provision relating to rulings on counterclaims filed in order to avoid preclusion cause an undue disadvantage for such jurisdictions?

Comments:

The comments as made in the Report by the Litigation Committee of the International Bar Association dated 10 February 2017 are upheld and we continue to recommend the same changes to the wording of the provision (as set out below).

To summarize those considerations:

- the current wording will cause the enforceability of a judgement to be split in the event that a judgment contains different decrees both in favour and against a counterclaimant (argument: "to the extent"). This might be most problematic on the issue of costs, which form part of the judgment by virtue of Art 3 (1) (b), when considering that a partial success with the counterclaim in some jurisdictions can lead to a pro rata obligation of the counterclaimant to reimburse costs to the counterdefendant.

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- subpara (ii) seems to provide that rulings on counterclaims against a counterclaimant in jurisdictions which require the counterclaim to be filed in order to avoid preclusion ("obligatory counterclaim"), will not be enforceable regardless of any other grounds of jurisdiction or connection to this venue, which would cause an undue disadvantage for such jurisdictions.

- counterclaimants are able to benefit from a limitation of recognition and enforcement of a negative judgment even if it was perfectly reasonable for them to file such counterclaim, if considerations of preclusion did not have any coercive effect and if a counterclaim was brought willingly.

It is therefore suggested that the provision is redrafted to make enforcement of any counterclaim the general rule, while restricting enforcement of obligatory counterclaims only insofar as this is necessary to mitigate any coercive effect into a jurisdiction, which would otherwise not lead to be enforceable judgement under Art 5 (1). This can be achieved by explicitly limiting the exception in cases where the court of origin would have also fallen under another relevant head of jurisdiction of Art 5 (1). Additionally, a claimant also in such cases should not be able to selectively rely on the beneficial part of a judgment while preventing enforcement of any negative parts.

It may be noted that the Preliminary Explanatory Report also considers in its paragraph 194 that Art 5 (1) (o) (ii) could prevent circulation of the judgment on the counterclaim if another jurisdictional filter in paragraph 1 applies. We recommend making this notion clearer in the wording of the provision by making reference to those other provisions. No reference would need to be made to sub-para (e) because the consent of the defendant to the counterclaim to jurisdiction does not justify the loss of the protection of the counterclaimant in the case of obligatory counterclaims. An application of sub-para (e) on obligatory counterclaims would severely limit the field of application of Art 5 (1) (o) (ii).

Proposals:
1. A judgment is eligible for recognition and enforcement if one of the following requirements is met – [...] (n) the judgment ruled on a counterclaim, provided that the counterclaim arose out of the same transaction or occurrence as the claim; **[However, if]** the law of the State of origin required the counterclaim to be filed in order to avoid preclusion**[, a judgment on such counterclaim shall not be enforced or recognised to the extent it was rendered against the counterclaimant, unless**

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(i) the court of origin in relation to the counterclaimant would also fulfil the requirements of any of the sub-paragraphs 1 a) to d), or g) to m), or

(ii) the counterclaimant has already relied on any other part of the judgment in recognition and enforcement in a Member State other than the State of origin.]

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ARTICLE 5(1)(p)

ARTICLE 5(1)(p) - The enforceability of Judgments (under this Convention) where there is an exclusive choice of Court agreement
1. A judgment is eligible for recognition and enforcement if one of the following requirements is met –   [...]   (p) the judgment was given by a court designated in an agreement concluded or documented in writing or by any other means of communication which renders information accessible so as to be usable for subsequent reference, other than an exclusive choice of court agreement.   For the purposes of this sub-paragraph, an "exclusive choice of court agreement" means an agreement concluded by two or more parties that designates, for the purpose of deciding disputes which have arisen or may arise in connection with a particular legal relationship, the courts of one State or one or more specific courts of one State to the exclusion of the jurisdiction of any other courts.

Key issues:
Could the removal of "exclusive choice of court" agreements from the ambit of this Convention have any unwelcome consequences?

Comments:

The aim of Art 5 (p) to recognise and enforce decisions taken in a venue designated by a choice of court agreement can be unequivocally supported. If necessary for political reasons it can also be accepted to split the enforcement rules between the present convention for non-exclusive choice of court agreements and the Convention on Choice of Court Agreements of 30 June 2005 for exclusive choice of court agreements.

However, from a legal perspective this differentiation is not necessary. If exclusive choice of court agreements were to be included in the present convention this might merely introduce an alternative and additional ground for recognition and enforcement, which would not disturb the workings of the second convention. To the contrary, for future members to the present convention, which are not at the same time members of the Convention on Choice of Court Agreements, the exclusion of exclusive choice of court agreements would bring the unbalanced situation that only judgments based on "weaker" non-exclusive choice of court

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agreements would be enforceable, while judg-ments based on “stronger” exclusive choice of court agreements would not be enforceable at all.

We therefore recommend removing any differentiation under this head of jurisdiction.

Proposals:
1. A judgment is eligible for recognition and enforcement if one of the following requirements is met –   […]   (p) the judgment was given by a court designated in an agreement concluded or documented in writing or by any other means of communication which renders information accessible so as to be usable for subsequent reference.

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ARTICLE 2(1)(l)

Inclusion or Exclusion of IP Judgments

Article 5 – Exclusions from scope
1. This Convention shall not apply to the following matters – (…) [(l) intellectual property rights[,except for copyright and related rights and registered and unregistered trademarks]].

Key issues:
• **The desirability of including IP judgments into the Convention** o The territoriality principle in intellectual property o Whether the territorial nature of IPR rights leads to the conclusion that inclusion of IPR judgments into the Convention is generally not desirable • **The desirability of including judgments in relation to patents, designs and other similar IPRs required to be registered or deposited**.

Comments

1. Desirability of including IP judgments in General

Effective protection of IP is key to the development and prosperity of industry and commerce, and the same is true to international business. IP infringement cases with international elements (and consequently IP validity/ownership cases with international implications), have become very common in many economies of the world. For example, the defendant may not be domiciled in the state where an alleged infringement takes place; the infringing acts may be concerted and implemented in state A by a person domiciled there but having assets in State B, with the effects of infringing the IP rights in State C, enjoyed by a person domiciled in State D. An effective recognition and enforcement mechanism needs to be in place for speedy resolution of IP disputes and efficient protection of IP rights.

The territoriality principle does not mandate or require subjecting all disputes related to the IP rights and protection afforded by the substantive law of a state (the "Home State") to the jurisdiction of that state only, just because the cause of action arises under the substantive

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law. Another state (the "Forum State") may have sufficient reasons, and sometimes very compelling reasons, to exercise jurisdiction over such claims, if

(1) one or more party has its domicile in the Forum State; and/or

(2) the infringing act is concerted or conducted in the Forum State, and evidence and witnesses are readily accessible in the Forum State; and/or

(3) the parties agreed to subject their dispute in the Home State to the jurisdiction of the Forum State, to centralize the dispute resolution to a single forum so as to save costs, or for other purposes reasonable to a business.

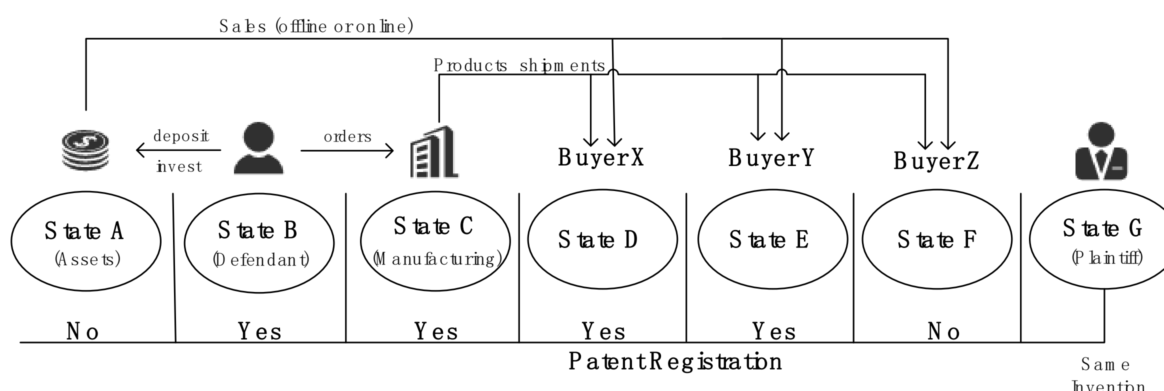

Chart -1

In many cases, it would be fair and frequently necessary for the parties to seek a judgment and enforce its rights in the Forum State (for example, State B or C, or D/E as well, in Chart-1) but thereafter to enforce the judgment in another jurisdiction (State A, in Chart-1).

It is particularly so when international business has become much easier with the use of internet, in advertising, in concluding deals, in distributing objects, and in payments of considerations.

Even when the case is heard by a court of the Home State, the need of cross-border recognition and enforcement would be quite usual if the losing party has no enforceable assets in the Home State or continues infringing acts in one or more other states but directed at the Home State. For example, a dispute may be centered in state B, but the infringing party has enforceable assets only in state A, which has no other connection to the cause of action. The parties cannot litigate effectively in state A where a dispute arises out of the law of state B.. In such a case, it will be naturally unjust if the judgments rendered by a court of state B cannot be in enforced in State A and the infringer can be free from any liability for its acts.

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2. Territoriality principle

It is misconceived that cross-border recognition and enforcement of IP judgment is incompatible with the territoriality principle.

The territoriality principle is **a substantive law and choice of law principle** in intellectual property matters, that an intellectual property right enjoyed by a person in a state is subject to the law of that state, not the law of any other state. It does not exclude the exercise of jurisdiction by one state over a dispute in relation to an IP right under the law of another state (for example, patent).

Remarkably, the territoriality principle is also applicable to copyrights (and other IP rights not required to be registered) and there is no universal copyright in the strict sense. Though no registration is required for copyright, and under the Berne Convention and many other international instruments a copyrighted work may enjoy protection under the laws of many states, the substantive rights enjoyed by and the scope and level of protection afforded to the copyright holder, vary from state to state. Therefore, there is no need to differentiate IPRs required to be registered from those not required to be registered, in an enforcement context. (See Chart -2 below.)

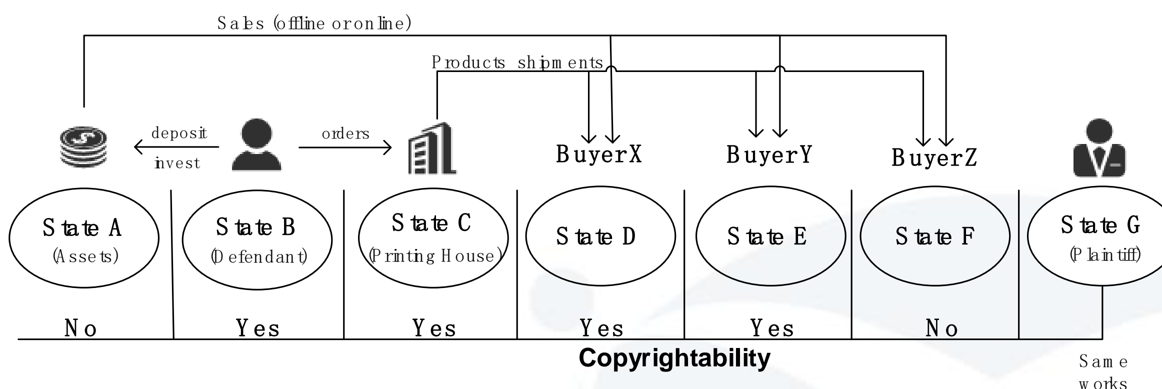

Chart -2

Starting from the territoriality principle, there are several **fundamental principles for conflict of law analysis in IP related matters** (for choice of law, exercise or denial of jurisdiction, and enforcement)**:**

(1) Separate Nature of IP Rights: first, the intellectual property rights and protections in connection to an invention, utility, design, copyrighted work, trademark, or another other subject matter, enjoyed by the rights holder(s) in each state, should be regarded as a single right or a single unit of rights, which is independent of and separable from the rights and

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protections to the same subject matter in any other state (even though they are subject to international harmonizing instruments) (See Chart-3 below);

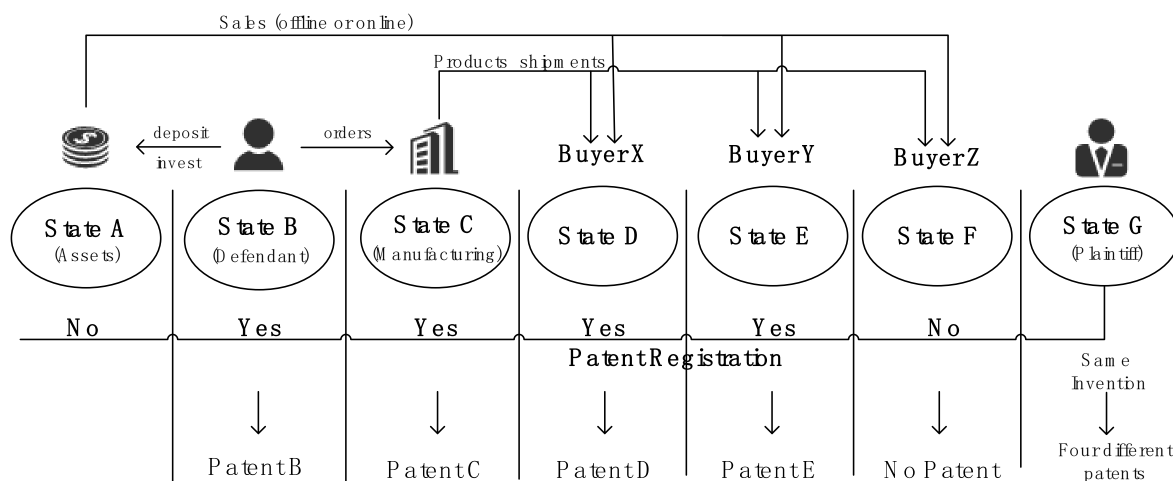

Chart -3

(2) Severability of Substantive Law and Choice of Law Analysis in IP Cases: As a consequence, a cause of action arising out of the substantive IP law of one state (usually means an infringement upon an IP right enjoyed in that state), is, and should be, separated from a cause of action arising out of the law of any other state, and is subject to an independent and separable substantive law analysis, and choice of law analysis as well (see Chart-4 below);

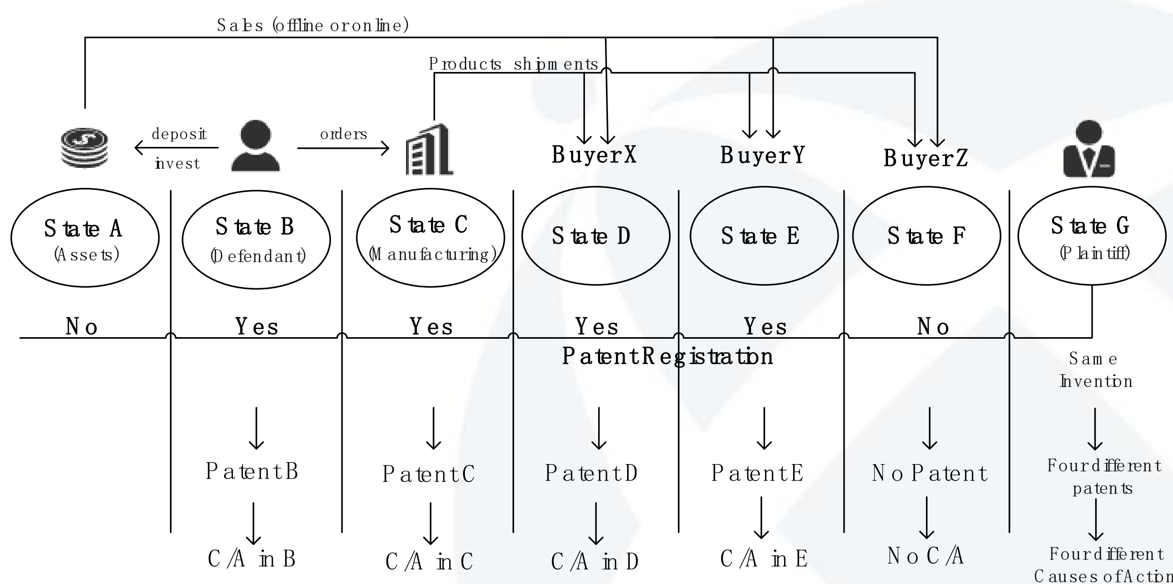

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Chart -4

(3) Severability of Jurisdiction Analysis in IP Cases: A court having jurisdiction to hear a cause of action under the law of a certain state, related to an infringement upon a right enjoyed in that state, does not have jurisdiction to hear a cause of action related to an infringement upon a right to the same subject matter under the law of another state, unless it has a sufficient connecting factor to that cause of action (see Chart-5 below);

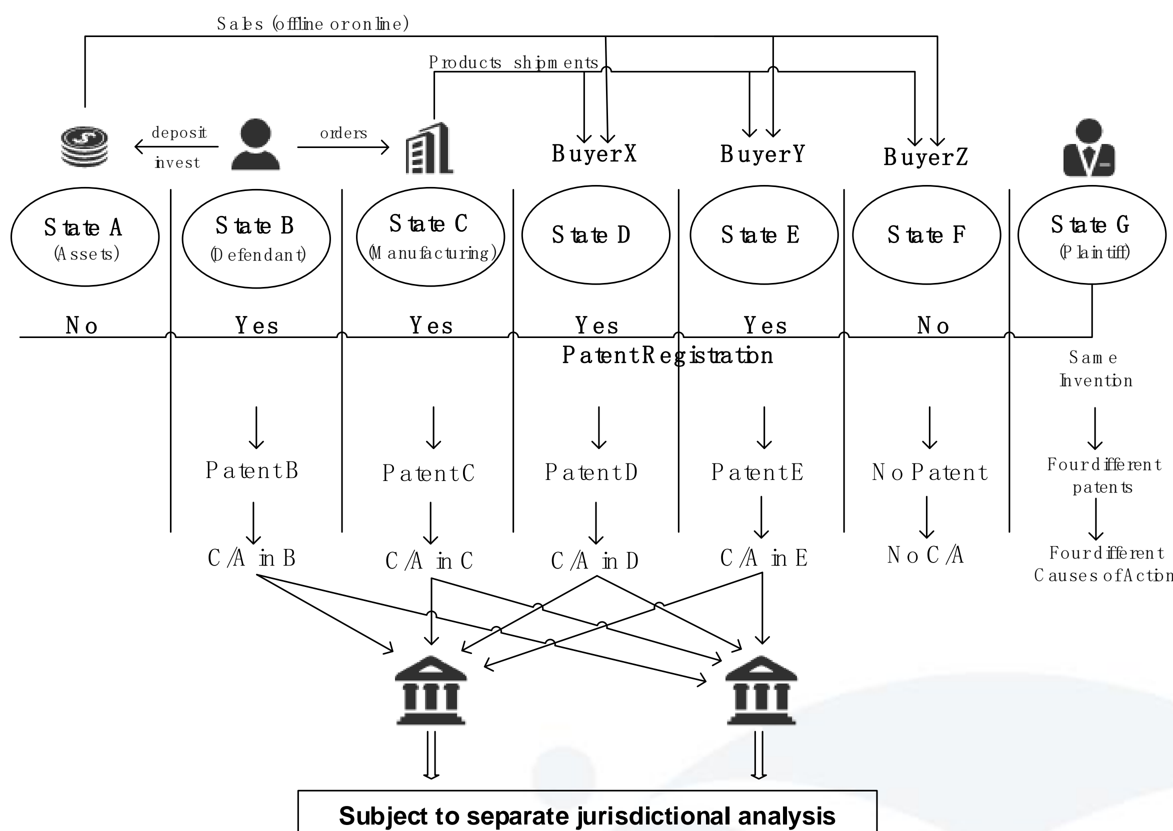

Chart -5

(4) Party Autonomy Exceptions, and Common rights/courts exceptions:

The parties may voluntarily choose the law of one state to govern, and/or submit to the court of a single state to adjudicate, the infringements of the rights to the same subject matter in different states, save as contradictory to the public policy of the forum state or the relevant other state(s).

The several states may also enter into a treaty to create a common IP right among these states and/or subject IP disputes in several countries to a common court with jurisdiction over

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matters in these several states. The approach has sufficient leeway for such exceptions, in order to provide for a more efficient international mechanism of resolving IP registration and/or IP protection.

(5) The same principles apply to copyrights and any other rights for which no registration or deposit is needed.

According to the above analysis, the courts will generally exercise jurisdiction over an IP dispute with foreign elements or arising under a foreign law using a consistent and moderate approach. The approach is moderate and restrained (compared to "expansive") , as there are already proper **jurisdictional limits** and **choice of law limits** over the exercise of jurisdiction by the forum court, so as to safeguard the parties' due process expectations and avoid a clash with other states' judicial powers to the extent possible.

These two limits for and in the exercise of jurisdiction, in turn, provide two "filters", respectively a **jurisdiction filter** and a **choice of law filter**, for the courts of Requested States to determine whether they would recognize and enforce a judgment rendered in the proceeding at the State of Origin.

In our view this answers the major concerns from the state opposing the inclusion of IP judgments. The draft Convention and the discussion paper from the EU have suggested several filters to provide a solution, which could be satisfactory with minor modifications.

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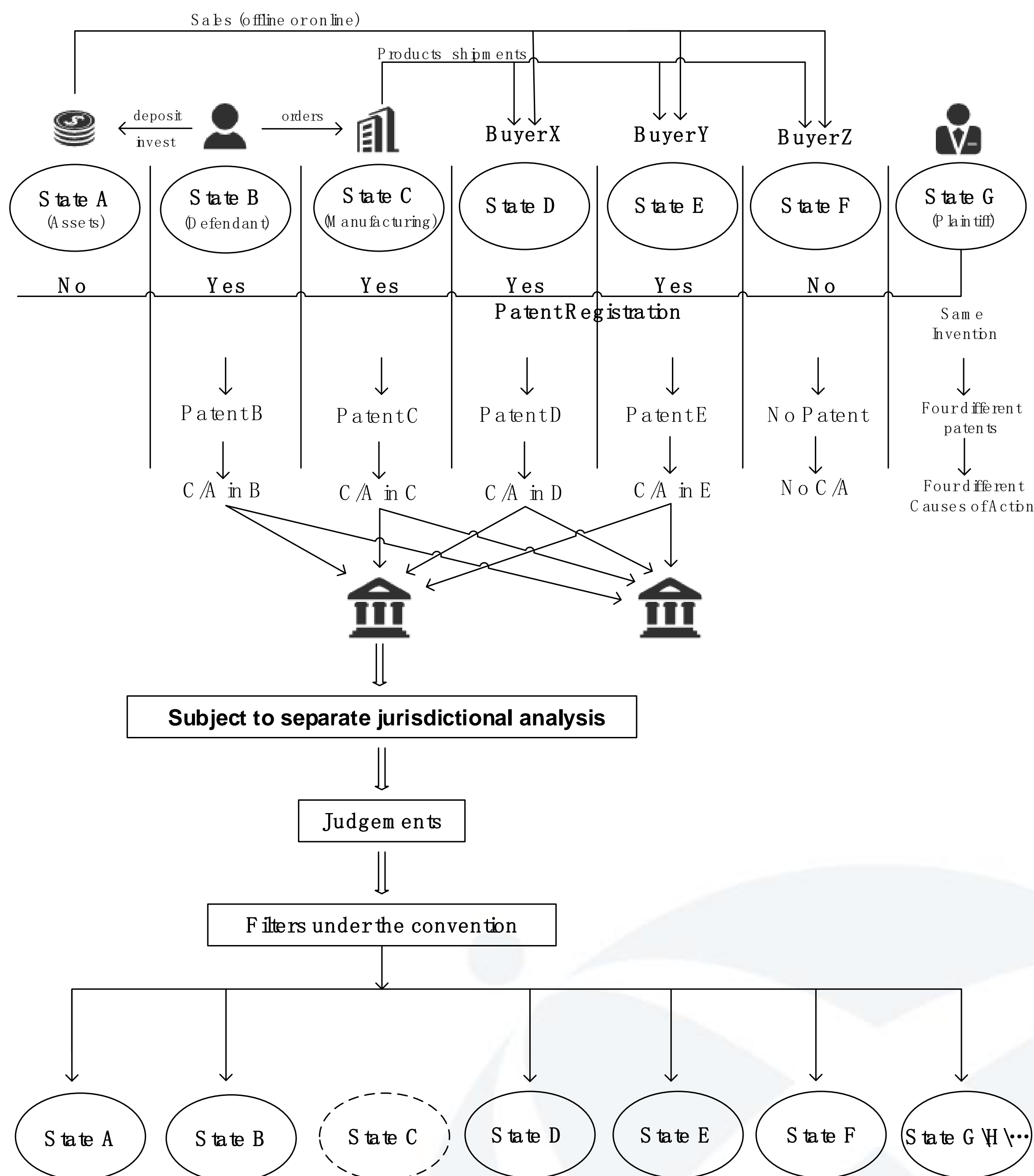

Chart -6

We will be attending the conference on 13 November 2017 where we will put forward our suggestions for modifications to the filters.

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Proposals
The Convention shall apply to all IP judgments, including those relating to IP rights which are not required to be registered.

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