

RETHINKING FORUM SHOPPING IN CYBERSPACE

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ABSTRACT: A game-theoretic analysis of forum shopping reveals how opportunities for strategic choices can influence the behavior of plaintiffs and defendants. If neither party has the opportunity to make strategic choices about participation or forum choices, we should expect no adverse selection or moral hazard problems. By contrast, if only one of the parties can control both the participation and forum selection choices, then we could expect pervasive adverse selection and moral hazard problems. In this paper we build on this simple game-theoretic framework, to analyze Dreyfuss and Ginsburg's (2001) Draft Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters. We suggest that if the parties are faced with a bilateral strategic problem (i.e., if one party has control over one strategic choice and the other party has control over the other strategic choice), the extent of opportunistic behavior by either party, and the resulting deadweight losses, are likely to be minimized. In this respect, the Dreyfuss-Ginsburg proposal sensibly minimizes the strategic problems of forum shopping and creates an enforcement scheme which leaves intact the innovation incentives underlying intellectual property rights.

Dreyfuss and Ginsburg's (2001) Draft Convention on Jurisdiction and Recognition of Judgments in Intellectual Property Matters addresses jurisdiction and enforcement of foreign judgments in the area of intellectual property. The proposal follows in many aspects the text of the Hague Conference Draft Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters.³ The authors of this proposal perceive that a special convention on intellectual property disputes would be particularly advantageous, not only in light of the uncertain prospects of the Hague Convention, but also for the peculiar problems emerging in the adjudication and recognition of foreign judgments in the field of intellectual property:

[A] convention drafted for intellectual property disputes would be able to take account of issues uniquely raised by the intangibility of the rights in issue. For example, where a general convention's jurisdiction provisions speak generally of "acts," "omissions," and their foreseeability, an instrument on intellectual property disputes can be geared specifically to the events that comprise infringement.⁴

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³ The Dreyfuss and Ginsburg proposal is indeed adapted from the October 30, 1999, Hague Draft Convention.

⁴ Dreyfuss and Ginsburg (2001). Some commentators have suggested that unlike real property claims, intellectual property claims, raise unique and difficult jurisdiction issues due to the intangible nature of the property and should be dealt with in a separate, standalone treaty. *See, e.g.,* Aippi Report, Finale Resolution, On the Hague Convention on Private International Law, Mar. 30, 2001, available at www.aippi.org/reports/resolutions (suggesting the deletion of intellectual property matters from the Hague Convention because of a lack on international consensus on how to handle them); Justice Jacob, *The Deioma Lecture*, 32 CASE W. RES. J. INT'L L. 507 (2000) (suggesting that the Hague Convention eliminate intellectual property from its purview and leave the nation-state litigation systems in place). In response to a request for comments on the Hague Convention from the United States Patent & Trademark Office

Dreyfuss and Ginsburg note that the problems posed by the new cyberworld realities can hardly be addressed with the traditional tools of analysis. Indeed, in many respects, the modern communication methods in cyberspace make it increasingly likely that infringement of intangible rights that give rise to an intellectual property case may have multiple relevant points of contact with different jurisdictions, exacerbating the traditional conflict of laws problems and putting to the test most of the frameworks of private international law adjudication.

Dreyfuss and Ginsburg identify efficiency in international intellectual property disputes as one of the primary targets of their draft convention. An important component of the proposal is indeed found in the objective to conserve judicial resources on an international basis and promote consistent outcomes. Very interestingly, the drafters observe:

Where a general convention may be concerned with curtailing forum shopping by potential plaintiffs, an intellectual property agreement can also consider the ability of a potential defendant to gain litigation advantages through the choice of the location of the activities that give rise to infringement. In certain situations, the propriety of expanding jurisdiction depends on the possibility of inconsistent outcomes; a convention tailored to intellectual property can specify what that term means in the context of public goods.⁵

The following remarks will concentrate on the specific issue of forum shopping in the context of intellectual property.

I. Forum Shopping in Historical Perspective⁶

Modern conflicts of law systems treat jurisdictional and choice of law issues differently.⁷ Procedural rules generally determine adjudicatory jurisdiction,⁸ whereas

(USPTO), several comments also advocated eliminating intellectual property from the Hague Convention. See USPTO website <http://www.uspto.gov/web/offices/dcom/olia/haguecomment> (last visited Dec. 13, 2001) (Letter from Dr. Peter T. DiMauro, International Center for Technology Assessment (Jan. 12, 2001); Letter from Laura A. Kaster, AT&T Corp., Steven L. Hensen, American Archivists (recommending eliminating copyright claims from the Hague Convention); Frederick W. Weingartner, et. al., American Library Association (reporting a resolution adopted by the American Library Association which urges the negotiators at the Hague Convention to remove intellectual property cases from the scope of the Convention); Doris Estelle Long, John Marshall Law School (recommending the creation of a separate treaty to deal with international jurisdiction issues relating to intellectual property claims)).

⁵ Dreyfuss and Ginsburg (2001).

⁶ For a more detailed historical perspective see Francesco Parisi & Erin A. O'Hara, *Conflicts of Law*, THE NEW PALGRAVE DICTIONARY OF ECONOMICS AND THE LAW (3d ed. 1999).

⁷ See Arthur Taylor von Mehren, *Adjudicatory Jurisdiction: General Theories Compared and Evaluated*, 63 B.U.L. REV. 279, 280 (1983).

⁸ See generally Friedrich K. Juenger, *Judicial Jurisdiction in the United States and in the European Communities: A Comparison*, 82 MICH. L. REV. 1195 (1983).

different criteria determine choice of applicable law.⁹ The differing approaches are the product of the historical evolution of conflict of laws.¹⁰ The Hague Convention on Jurisdiction and Foreign Judgments in Civil and Commercial Matters and the Dreyfuss and Ginsburg proposal are no exception to such tradition.

As a matter of historical speculation, conflict of law systems could have developed a single set of rules to solve both jurisdictional and substantive issues. In such a hypothetical world, the choice of applicable law could have been linked to the adjudicatory jurisdiction of the court and the jurisdiction most closely connected to a case would have decided the case. Courts never would have applied foreign law. But historically and dogmatically, this solution was not viable.

First, without perfect coordination among national conflict of law rules, parties could be left without a forum for their dispute. For example, system A could deny jurisdiction for a case because, according to the conflict of law criteria of system A, it is more closely connected to system B. However, once filed in jurisdiction B, the jurisdiction might also deny jurisdiction because, according to the conflict of law criteria in system B, the situation is regarded as more closely connected to system A.

Second, national judges were historically wary of dismissing cases that had some connection with their legal system. And legislators found it politically more acceptable to allow the application of foreign rules when domestic judges applied and interpreted such rules. Linking jurisdiction and choice of law would have released any residual sovereign control over a case. Such an unconditional surrender would have been at odds with the still evolving concept of jurisdictional sovereignty. Thus, the historical concurrence of pragmatic and dogmatic considerations led to the evolution of a dual system of conflict of laws.

Unavoidably, the dualistic approach generates the potential for conflicts between the jurisdictional claims of national courts. Where two or more jurisdictions are able to hear a dispute, a plaintiff can “forum shop,” or choose among alternative fora, often with an opportunity to pre-empt a defendant’s choice.

A. Overlapping Jurisdictions and the Problem of Forum Shopping

Where adjudicatory jurisdictions do overlap, the case will likely be decided in the jurisdiction where it is first filed. By strategically choosing the forum, a plaintiff can maximize the expected return from litigation.

The strategic choice of forum has distributional effects and efficiency implications. Inasmuch as the status of plaintiff is randomly determined, the distributional effects have no ex ante impact on individual incentives. However, if some individuals are statistically more likely to be plaintiffs than defendants, such as property rights holders (copyright owner, patentee, or trademark owner), the opportunity for forum shopping may have biased distributional effects with a potential impact on the ex ante incentives of the parties. In contrast, the *ex post* efficiency implications are independent of the random nature of the status of plaintiff. The plaintiff’s advantage will trigger a “race to the courthouse,” inducing potential defendants to expedite their filing in order to

⁹ See generally Francesco Parisi & Larry Ribstein, *Choice of Law*, THE NEW PALGRAVE DICTIONARY OF ECONOMICS AND THE LAW (3d edition 1999).

¹⁰ See Friedrich K. Juenger, CHOICE OF LAW AND MULTISTATE JUSTICE 6-46 (1993).

preempt the opponent's choice of jurisdiction. The "race to the courthouse" may thus have substantial efficiency implications, accelerating the filing process and bringing to trial cases that may not have matured into court claims, had they been left to the choice of the natural plaintiff.

In this setting, the ex post choice of forum produces results that are quite different from the ex ante contractual choice of law and forum. Ex ante agreements, if enforced without exceptions, enhance predictability by allowing the parties to choose among several competing laws and jurisdictions. By contrast, ex post choice of forum generates unpredictability in the system. Furthermore, with ex ante choice of law, parties can select more efficient rules to govern their contractual relationship. By contrast, the ex post choice of forum is strategically determined, and the equilibrium solution of a forum shopping game is not likely to produce the most efficient choice of law and jurisdiction.

Continental ideals of multilateralism and certainty in the conflict of law process embody the above concerns. Ex ante predictability is set out as a primary goal of the conflict of law system, at least in those cases where forum shopping may result in the application of different substantive laws.

B. *Uniform Outcomes, Multilateralism, and Mirror-Image Tests*

The traditional civil law desire for coherence, certainty and deductive logic spawned the European rule-based approach for conflict of laws resolution.¹¹ Bright-line tests are preferred to multi-factor analysis because of the greater predictability of their results.¹² Rarely do European conflict rules allow for standard-based methodologies similar to those used in the United States. The difference in approaches and the traditional European hostility for open-ended methodologies is best signified by the emphasis in European scholarship on the primary goal of conflict of laws: uniform outcomes for similar cases.¹³ Any given case that requires the application of conflict of law rules should be decided according to the same substantive rules in all jurisdictions. A double solution is disfavored for any given case.

The traditional consensus favoring a rule-based approach can be traced back to the work of the German scholar Friedrich Carl von Savigny (1779-1861).¹⁴ He advocated with great theoretical clarity that the primary objectives of conflict of law rules ought to be uniformity of outcomes and discouragement of forum shopping.¹⁵ Consequently, Savigny developed a system of rules, grouping hypothetical cases into thirty-nine categories and contemplating an equal number of connecting factors to determine applicable law. Savigny's approach is noteworthy for having fully articulated a case for

¹¹ See Friedrich K. Juenger, *How Do You Rate a Century?*, 37 WILLAMETTE L. REV. 89, 93 (2001).

¹² Mathias Reimann, CONFLICT OF LAWS IN WESTERN EUROPE: A GUIDE THROUGH THE JUNGLE, 9-11 (1995).

¹³ Europeans label this goal as "decisional harmony." See Juenger, *supra* note 11, at 93 n.32.

¹⁴ FRIEDRICH CARL VON SAVIGNY, SYSTEM DES HEUTIGEN RÖMISCHEN RECHTS (1849). Available in English as FRIEDRICH CARL VON SAVIGNY, A TREATISE ON THE CONFLICT OF LAWS (AND THE LIMITS OF THEIR OPERATION IN PLACE AND TIME) (William Guthrie trans., T&T Clarck Law Publishers 2d ed. 1880).

¹⁵ Juenger, *supra* note 10, at 39.

rules and multilateralism, breaking apart from for forum-centered solutions.¹⁶ His work remains the conventional wisdom in modern European systems.

Modern models of multilateralism in conflict of laws reflect Savigny's ideal of uniform outcomes.¹⁷ Multilateralists are critical of the forum-centered methodology of interest analysis and expect courts to consider the likely result of the case if it were submitted to a foreign court.¹⁸ In its purest form, multilateralism requires courts to perform a hypothetical mirror-image test, asking if their solution would be compatible with a symmetrical claim litigated in another jurisdiction.

Several conflict of law approaches fail to satisfy the requirements of multilateralism. For example, a forum law approach performs poorly under the mirror-image test. If jurisdiction A claims that all disputes shall be resolved by application of its law, A's claim is incompatible with any other jurisdiction's symmetrical claim to regulate the dispute according to its forum law. Similarly, standard-based approaches and multi-factor analyses also tend to score poorly under the mirror image test.

By contrast, bright-line criteria and rule-based approaches are generally more compatible with a multilateral approach to conflicts resolution. For example, connecting factors based on unambiguous criteria such as the place of the accident, or the residence of the *de cuius* are fully compatible with the multilateral approach. Simply stated, no interjurisdictional conflict would emerge under multilateral rules. Unfortunately, not many bright line rules can easily be articulated with respect to intangible intellectual property rights.

II. The Problems of Forum Shopping in Intellectual Property

The selection of a forum initially belongs exclusively to the plaintiff who files the lawsuit. There are many reasons that a party may believe that a particular jurisdiction is preferable for its intellectual property dispute. In selecting a forum the plaintiff would likely consider the following: the knowledge, background, and experience of the judges; the judges' previous experience with high technology or intellectual property matters;¹⁹ whether the nation permits jury resolution of intellectual property matters;²⁰ the attorney's

¹⁶ Justice Joseph Story was also a seminal figure in developing multilateralism, and, in fact, he was a significant influence upon Savigny. Juenger, *supra* note 11, at 91. See JOSEPH STORY, COMMENTARIES ON THE CONFLICT OF LAWS (Issac F. Redfield ed., 6th ed. 1865).

¹⁷ Juenger, *supra* note 10 at 47-48.

¹⁸ See generally Symeon C. Symeonides, *American Choice of Law at the Dawn of the 21st Century*, 37 WILLAMETTE LAW REVIEW 1, 16-42 (2001).

¹⁹ In Germany, for example, there is a German Patent Court with technically trained judges that resolve all patent cases brought in Germany. See Ernst K. Pakuscher, *The Symbiosis of Lawyers and Natural Scientists as Judges of the Federal Patent Court in the Federal Republic of Germany*, 1 TUL. EUR. & CIV. L.F. 215 (1994). See also Kong-Woong Choe, *The Role of the Korean Patent Court*, 14 FED. CIR. B.J. 473 (2000) (explaining the Korean Patent Court).

²⁰ The United States is among the minority of countries that permits jury trials of intellectual property matters and has come under considerable criticism for doing so. See, e.g., Richard B. Schmitt, *Court May Consider Some Limits on Juries' Role in Patent Lawsuits*, WALL ST. J., Feb. 18, 1994, at B8 (quoting patent attorney Donald Dunner as saying: "Give [jurors] a complicated biotechnology case or one involving lasers or computers, and their eyes glaze over" and Professor Martin J. Adelman that jury confusion has created "a system of justice that is basically a lottery."); Edmund L. Andrews, *A 'White Knight' Draws Cries of 'Patent Blackmail'*, N.Y. TIMES, Jan. 14, 1990, at 5 (A jury trial of a patent case is "a 'judicial lottery,' an often unpredictable system that can yield huge rewards for those who are sufficiently aggressive.").

familiarity with the judges; the court's docket and its speed in resolving cases;²¹ the reputation of the parties in the nation;²² and, of course, traditional factors, such as the convenience for the parties, witnesses and attorneys.

In a world characterized by a great variation in substantive and procedural rules among different jurisdictions, the litigants can benefit by strategically engaging in forum selection. As it has been suggested the outcome of the case can be independently influenced by (a) procedural variations, or (b) substantive variations in the applicable law, such that the outcome can vary by jurisdiction or adjudicator even when the facts and the law are the same. The evils of forum shopping generally revolve around two themes: (1) the notion that forum shopping reflects inequity in the legal system; and, (2) the premise that forum shopping is inefficient.

A. *The Normative Evils of Forum Shopping*

It is a fundamental tenet of any legal system that the law ought not be manipulable and its application ought to be uniform.²³ This is difficult to achieve on a national basis even where all the courts and judges are applying their own nation's laws. The advent of the Internet has facilitated borderless commerce -- for intangible property rights the potential for simultaneous infringement in multiple international jurisdictions is high. The result is that intellectual property rights holders will have choices among possible jurisdictions to bring their lawsuit. When litigants have more choice among potential fora, consistency among fora and their application of law becomes more acute.

Forum shopping is problematic for any individual country where its inhabitants may bring suit in multiple potential courts. An empirical study limited to the United States has shown significant incentive for forum shopping of patent cases among the various U.S. district courts where suits could be brought.²⁴ This study showed differing procedural and substantive resolution of cases in the various U.S. district courts. This is true despite the fact that these are all U.S. courts, applying U.S. patent law. This manipulability of the administration of law thwarts the ideal of neutrality in a system whose objective is to create a level playing field for resolution of disputes.²⁵ The intensity of forum shopping suggests that the view of law as immutable is ultimately unfulfillable.²⁶ The ultimate result is unpredictability and inconsistency in the application

²¹ Certain courts have reputations for quick resolution of cases such as the Eastern District of Virginia in the U.S. and other courts have reputations for slow resolution such as Italian courts. Intellectual property rights holders often prefer expedient resolution of disputes in order to obtain an injunction to prevent further infringement.

²² Many parties feel that particular fora may be hostile or bias against foreign parties and that this xenophobia could impact outcome. See, e.g., Jack L. Lahr, *Bias and Prejudice Against Foreign Corporations in Patent and Other Technology Jury Trials*, 2 FED. CIR. B. J. 405, 405 (1992) ("A widespread perception within the corporate communities of many industrial countries holds that they will be treated unfairly in U.S. jury trials due to the jury bias and prejudice against foreigners.").

²³ Kimberly A. Moore, *Forum Shopping in Patent Cases*, 79 N.C. L. REV. 889, 924 (2001).

²⁴ See Moore, *supra* note 23 (presenting the results of an empirical study of 9615 patent cases over the five year period 1995-1999 and concluding that U.S. district courts vary in their procedural and substantive resolution of patent cases).

²⁵ See George D. Brown, *The Ideologies of Forum Shopping—Why Doesn't a Conservative Court Protect Defendants?*, 71 N.C. L. REV. 649, 668 (1993). But see Robert M. Cover, *The Uses of Jurisdictional Redundancy: Interest, Ideology, and Innovation*, 22 WM. & MARY L. REV. 639, 646-48, 672-80 (1981) (arguing that having many possible fora with concurrent jurisdiction serves the beneficial function of error reduction and results in a fairer and more innovative judicial system).

²⁶ Note, *Forum Shopping Reconsidered*, 103 HARV. L. REV. 1677, 1685-86 (1990).

of the law among jurisdictions. This instability erodes public confidence in the law and its enforcement and creates doubt about the fairness of the system.²⁷

This problem is greatly magnified when the opportunity exists to bring suit anywhere in the world. If difficulty exists in achieving consistency intranationally where courts are applying their own nation's laws, imagine how the problem complicates when you have the option of having a court apply unfamiliar law. If choice of international jurisdiction is unfettered, forum shopping would be rampant.²⁸

B. *The Economic Inefficiency of Forum Shopping*

Commentators question the efficiency of forum shopping for several reasons. First, it has been argued that forum shopping overburdens preferred courts with a flood of cases.²⁹ If the intellectual property rights holder is consistently the plaintiff, suits are likely to be consolidated in the jurisdictions which the rights holders perceive as most favorable to them.³⁰ This may not, however, actually be inefficient. In theory, if the total number of cases remains constant and the only variable is where the cases are brought, it would be more efficient to have those cases consolidated in discrete courts that could develop expertise in the area. For example, if most patent cases were brought in a few choice jurisdictions (creating a group of patent courts), the judges in those jurisdictions would develop expertise with patent case management and patent law. These judges would be more efficient at resolving patent cases; even though the technology changes from case to case, exposure to the substantive law and its application would increase judicial efficiency. Over time, these courts would also establish track records, increasing outcome predictability and decreasing litigation.

Maximum efficiency would, of course, be achieved by a single, specialized international trial court with adjudicatory authority over all intellectual property disputes. Such a court would eliminate forum shopping and eliminate the specter of outcome inconsistency. It is, however, extremely unlikely that nations would be willing to entirely relinquish control over adjudication of their intellectual property cases.

Second, forum shopping wastes resources by increasing litigation costs as parties dispute forum or pursue the most favorable forum, which often is not the closest or most convenient location.³¹ The Draft Convention subjects corporations to jurisdiction wherever they sell products, which is increasingly internationally. This would create a large number of possible fora. According to the Draft Convention, the parties and all of

²⁷ Kimberly Jade Norwood, *Shopping for a Venue: The Need for More Limits on Choice*, 50 U. MIAMI L. REV. 267, 305-07 (1996).

²⁸ See Friederich Juenger, *The Internationalization of Law and Legal Practice: Forum Shopping, Domestic and International*, 63 TUL. L. REV. 553, 560 (1989) (discussing preference among tort plaintiffs to bring suit in the U.S. because of generous juries and liberal procedure); David W. Maher, *A Cyberspace Perspective on Governance, Standards, and Control: Trademark Law on the Internet--Will It Scale? The Challenge to Develop International Trademark Law*, 16 J. MARSHALL COMPUTER & INFO. L. 3, 12 (1997) (discussing the global scope of the Internet and the potential for jurisdictional uncertainties between nations); Joseph H. Sommer, *Against Cyberlaw*, BERKELEY TECH. L.J. 1145, 1209 (2000) (stating that forum shopping arises as a problem in international disputes).

²⁹ See Note, *supra* note 26, at 1684.

³⁰ See Moore, *supra* note 23, at 904 (empirical study of U.S. district courts showed that patent cases are largely consolidated in a few select jurisdictions).

³¹ See Note, *supra* note 26, at 1691 (“Critics of forum shopping claim that it is inefficient because it tends to result in litigation far from the ‘natural’ forum—the one closest to, most knowledgeable about, or most accessible to the litigants.”).

the courts with parallel jurisdiction are then supposed to collaborate to ascertain the most appropriate forum. Although resources will be spent in the “collaboration” over the proper venue, if an agreement can ultimately be reached which will be enforced by all affected jurisdictions, it will certainly be more efficient than relitigating the issues in each nation.

C. *Forum Variation Undermines the Innovation Incentive Underlying Intellectual Property*

Intellectual property rights are thought to be critical in spurring technological innovation.³² The value of intellectual property lies in its guarantee of exclusivity, providing its owner a defined property right. This value depends on the boundaries of the property right, competitors’ respect for those boundaries, and the ability of the right holder to enforce them. If the property owner’s ability to enforce her intellectual property is inefficient or unpredictable, its value decreases³³ for its owner, competitors, and the public thereby stifling innovation and competition.

Unpredictability or uncertainty in the boundaries of intellectual property rights and their enforceability will have several ramifications. It will divert resources from innovative efforts (research and development) to enforcement (transaction or litigation costs),³⁴ decreasing the value of the property right and thereby decreasing its efficacy as a means for promoting innovation. Moreover, uncertainty in the boundaries of the proprietary right will decrease innovation by unpredictably expanding or contracting the patent holder’s scope of exclusivity.³⁵

Two possible scenarios result when the delineation and enforcement of property rights are uncertain: (1) competitors will have less respect for the property right, causing an increase in transaction costs and a decrease in value of the property right as a means for promoting innovation; or (2) competitors will effectively broaden the property right to increase certainty and avoid transaction costs, effectively eliminating competition. When uncertainty in the application of a legal standard exists, parties will either over-comply or

³² See Rebecca S. Eisenberg, *Patents and the Progress of Science: Exclusive Rights and Experimental Use*, 56 U. CHI. L. REV. 1017, 1045 (1989); see also *King Instruments Corp. v. Perego*, 65 F.3d 941, 950 (Fed. Cir. 1995) (noting that the patent system “creates an incentive for innovation”).

³³ In its report to the Secretary of Commerce, the Advisory Commission on Patent Law Reform warned that the problems associated with the enforcement of patent rights “have the potential to eradicate the basic incentive provided by the patent system” and that the inherent value of the patent right can be realized only if the property owner has effective and inexpensive access to an efficient judicial system. THE ADVISORY COMMISSION ON PATENT LAW REFORM: A REPORT TO THE SECRETARY OF COMMERCE 75 (1992).

³⁴ Many commentators have lamented the increased transaction costs caused by unpredictable, fuzzy, or muddy rules. *E.g.*, Douglas Baird & Thomas Jackson, *Information, Uncertainty, and the Transfer of Property*, 13 J. LEGAL STUD. 299, 312–28 (1984) (favoring sharper, clearer rules); Clifford G. Holderness, *A Legal Foundation for Exchange*, 14 J. LEGAL STUD. 321, 322–36 (1984) (favoring clear, specific definitions because they lower information and transaction costs); Carol M. Rose, *Crystals and Mud in Property Law*, 40 STAN. L. REV. 577, 591 (1988) (“Hard-edged rules define assets and their ownership in such a way that what is bought stays bought and can be safely traded to others, instead of repeatedly being put up for grabs.”).

³⁵ The *Markman* Court reasoned:

As we noted in *General Elec. Co. v. Wabash Appliance Corp.*, 304 U.S. 364, 369 (1938), “[t]he limits of a patent must be known for the protection of the patentee, the encouragement of the inventive genius of others and the assurance that the subject of the patent will be dedicated ultimately to the public.” Otherwise, a “zone of uncertainty which enterprise and experimentation may enter only at the risk of infringement claims would discourage invention only a little less than unequivocal foreclosure of the field.”

Markman v. Westview Instruments, Inc., 517 U.S. 370, 390 (1996) (quoting *United Carbon Co. v. Binney & Smith Co.*, 317 U.S. 228, 236 (1942)).

under-comply³⁶ with the legal standard, modifying their behavior more than or less than the law requires.

If uncertainty exists in the application of a legal standard, even parties who normally would behave efficiently will face a greater chance of being held liable because of the unpredictability.³⁷ The only way³⁸ that these parties can reduce that chance is by over-complying with the legal rule. Such behavior is inefficient as it will contract industry output and raise prices. For example, if a copyright holder has a copyright on a product with which a competitor would like to compete and the enforceability of the copyright is uncertain in scope, the competitor would likely provide the copyright holder with a larger monopoly zone than the copyright itself actually entitles. In effect the zone of the copyright holder's monopoly, the zone of no competition, would expand beyond what was contemplated by society when the copyright was issued. In such a case, if the competitor elects to compete at all with the copyrighted product, it would do so in a less than optimal fashion.

Neither scenario, where the copyright owner gets a substantially diminished property right or where the copyright gets a substantially expanded property right, will promote innovation.³⁹ Both modify the system of incentives that exists for securing the copyright property right, tipping the careful balance that has been struck between the copyright owner and the public, which ensures competition and tolerates limited monopolies to promote innovation.

With the Dreyfuss-Ginsburg proposal, the impact of uncertainty in choice of venue is actually more predictably one-sided in favor of the intellectual property right owner. In patent cases for example, generally the patent holder selects whether to bring suit and venue. This is true despite the ability of the defendant, in certain circumstances, to bring a declaratory judgment action. The "race to the courthouse" is within the plaintiff's, intellectual property rights holder's, control because declaratory judgment actions for noninfringement of intellectual property rights cannot be brought absent a threat of suit by the rights holder.⁴⁰ In this manner the rights holder controls in all instances whether a suit can be brought.

The defendant infringer, however, controls the potential fora by selecting where to locate and where to sell infringing products; a process made considerably easier by the advent of the Internet. In this manner the defendant gets to limit the jurisdictions in

³⁶ See John E. Calfee & Richard Craswell, *Some Effects of Uncertainty on Compliance With Legal Standards*, 70 VA. L. REV. 965, 965–66 (1984) (concluding that socially inefficient overcompliance or undercompliance results from uncertain legal standards even when the parties are risk neutral).

³⁷ *Id.* at 966.

³⁸ *Id.*

³⁹ *Contra* Ian Ayres & Paul Klemperer, *Limiting Patentees' Market Power Without Reducing Innovation Incentives: The Perverse Benefits of Uncertainty and Non-Injunctive Remedies*, 97 MICH. L. REV. 985, 993–94 (1999) (arguing that constraints on the patentee's monopoly caused by consistent under-compliance may be efficient as it enhances competition).

⁴⁰ Although in some limited circumstances the infringer may be able to select venue by bringing a declaratory judgment action, a declaratory judgment action can only be brought against the patent holder when the patent holder places the infringer in reasonable apprehension of being sued which requires affirmative action by the patent holder. *Intellectual Property Development, Inc. v. TCI Cablevision of Cal., Inc.*, 248 F.3d 1333, 1340 (Fed. Cir. 2001) (holding that in order to bring a declaratory judgment action an infringer must prove "an explicit threat or other action by the patentee, which creates a reasonable apprehension on the part of the declaratory plaintiff that it will face an infringement suit"); *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996) (holding that an infringer must have a "reasonable apprehension" of being sued by the patent holder before they can file a declaratory judgment action). Hence, control in this circumstance remains in the patent holder's hands. There is also the possibility that the infringer will be successful in getting a case transferred. This could add some uncertainty to the calculus.

which it can be subject to suit.⁴¹ Accordingly, in most traditional legal regimes where venue turns on broad mutable factors such as personal jurisdiction, defendants may be able to control where they are sued by controlling the location of their sales.

Although there is usually unpredictability in permitting choice from among many potential fora, that unpredictability is greatly mitigated in a system in which the choice belongs exclusively or consistently to one of the parties. If infringers behave strategically they will predictably limit their sales to regions with favorable law. In these jurisdictions we would expect systematic undercompliance with intellectual property rights which would contract the right making it less valuable.

In a system where the intellectual property rights holder systematically selected the forum, the defendant may not know exactly which nation she will be sued in, but because she knows that the intellectual property rights holder gets to select the forum, she can predict that the property owner will choose the most favorable forum. In these circumstances, infringers will systematically make *ex ante* product and design decisions in a manner most favorable to the rights holder. The infringer will systematically over-comply with the scope of the exclusive right, consistently expanding the property right beyond what was intended when it was granted.

Of course, this analysis assumes one-dimensional decision-making by the intellectual property owner and the infringer-defendant. Parties, however, may select particular judicial districts for a variety of reasons, including speed of adjudication or chance of getting to trial and not purely on win rate.⁴² In short, the choice of venue is actually a multi-dimensional decision blurring the ability to predict venue choices. This uncertainty may result in a mixture of under- and over-compliance. In either event, the careful balance between the rights holder and society has been tipped.

III. Rethinking Forum Shopping in Intellectual Property: A Game-Theoretic Approach

In a world where relocation costs are low, such as a virtual relocation world in cyberspace, several of the traditional criteria of jurisdiction become vulnerable to strategic behavior by the parties.⁴³ In this section, we consider the issue of forum shopping through the lenses of economic analysis to evaluate the dynamics of strategic forum shopping, and the resulting problems of adverse selection and moral hazard. We present a simple taxonomy of strategic problems, sketching some corollaries for the design of conflict of law rules.

A. Incentive versus Distributional Consequences of Forum Shopping

As discussed above, the existence of overlapping adjudicatory jurisdictions

⁴¹ The new cybermarket place also expands jurisdictions in which suits can be brought simply by making it easier for defendants to compete in international commerce. Of course, the choice of whether to enter a market and thereby subject themselves to personal jurisdiction there is still up to the defendant infringer.

⁴² See Moore, *supra* note 23 (empirically substantiating the fact that several of the most popular jurisdictions for patent cases do not have high patent holder win rates, but are advantageous for other reasons).

⁴³ Unlike typical private law situations where “residence” is not established for the sole purpose of ensuring a favorable forum for a future litigation, in IP cases we can imagine firms and companies establishing companies in a given jurisdiction in order to minimize their expected liability costs.

generally creates the opportunity for forum shopping. Parties can maximize their expected return from litigation by strategically affecting the choice of forum. While forum shopping generally takes place after the parties have chosen their conduct within the relevant legal relationship, rational actors often envision the opportunity for ex post forum shopping, with ex ante effects on their choice of conduct. A fundamental insight of law and economics has a direct application to this context: rules that are designed to operate retrospectively after the fact (e.g., rules concerning the jurisdictional competence of different courts) are often strategically accounted for by the parties, producing ex ante effects on individual behavior. These problems are exacerbated in a world where virtual relocation costs are low and where the traditional criteria of jurisdiction reveal their intrinsic limitations.

Strategic forum selection has distributional and efficiency effects which vary according to whether the parties find themselves in symmetric or asymmetric positions.

- (a) *Ex Ante Symmetry*. Inasmuch as the status of plaintiff is randomly determined, the distributional effects have no ex ante impact on individual incentives. That is to say, if at the time of entering into their legal relationship the parties face symmetric ex ante prospects (based on the equal prior probabilities to be involved in a dispute as plaintiffs or defendants), such parties would have incentives to act efficiently with no ex ante adverse selection. However, once the veil of uncertainty is lifted (i.e., once the parties have effectively entered into a relationship and a dispute has arisen), parties are likely to act strategically with respect to the forum selection choice, since their role as plaintiffs or defendants is now fully known. In this group of cases, the parties' ex ante symmetry implies that forum shopping only has ex post effects.
- (b) *Ex Ante Asymmetry*. Different conclusions are reached if we allow for ex ante asymmetries. If some individuals are statistically more likely to be plaintiffs than defendants, a second strategic problem will emerge, given the differential impact of ex ante jurisdictional selection on the costs and benefits of the parties. In this case, forum shopping may have ex ante distributional and incentive effects.

In the following discussion, we examine the case of systematic outcome variations, with asymmetric parties. The focus on such a case is carried out with no prejudice to the generality of the analysis because the hypothesis of ex ante symmetry is a special case of the asymmetric problem, in which one dimension of the problem (i.e., the ex ante adverse selection) is suppressed.⁴⁴

⁴⁴ We believe that the condition of asymmetry is of greater practical significance, since it allows for the parties within any given legal relationship to face different probabilities to be plaintiffs or defendants, if a dispute arises. These variations can induce strategic forum shopping and thus affect the incentives of the parties. Non-systematic outcome variations, while having ex post distributional effects, have no ex ante impact on the costs and incentives of the parties and thus cannot be strategically relied upon.

B. *The Strategic Moments of Forum Shopping*

From a law and economics perspective, forum shopping is problematic because it can give rise to adverse selection⁴⁵ and moral hazard problems.⁴⁶ To the extent that jurisdictional choice may affect the liability of the actors, parties may face strategic problems of different types, according to the sequence of their strategic choices.

There are two chronologically distinct moments where strategic choices become relevant.

(a) *Strategic Participation Choice.* The first important moment of the strategic problem concerns the adverse selection of the parties when deciding whether to participate in a given relationship. The matching of a potential plaintiff with his defendant may be directly controlled by one party or the other. For example, in an intentional tort situation, the defendant generally has an opportunity to choose his own plaintiff. The opposite may hold in other quasi-contractual relationships. In yet other situations, both parties control their participation in a relationship, such as for the case of consensual contractual relationships. For the purpose of our taxonomy, these situations are considered as if neither party controls the participation choice, given the fact that neither party can single-handedly coerce the other party to participate.

(b) *Strategic Ex Post Forum Choice.* The second relevant moment for the analysis of our problem concerns the selection of the competent jurisdiction. Depending on the choice of connecting factor, one party or the other may have a greater opportunity to influence forum selection. For example, if the competent forum is linked to the place of residence of the defendant, the defendant has a better control than the plaintiff over such a connecting factor. Likewise, if the competent jurisdiction for products liability is the place of accident, the plaintiff has a better opportunity to control the jurisdictional choice by choosing where to use the product. In a world with costless virtual relocation, several of the traditional connecting factors (e.g., place of business, residence, etc.) can be

⁴⁵ Moral hazard problems are due to a divergence between the private marginal cost of some action and its social marginal cost, which results in an allocation of resources which is suboptimal. The typical textbook example of moral hazard refers to an insurance scenario in which a party who has full theft insurance has suboptimal incentives to take precautions against theft (e.g., locking his car, parking in a safe place, etc.). See Michael C. Jensen & William H. Meckling, *Theory of the Firm: Managerial Behavior, Agency Costs, and Capital Structure* 3 J. OF FIN. ECON. 305-360 (1976); Bengt Holmstrom, *Moral Hazard and Observability*, 10 BELL J. OF ECON. 74-91 (1979). In our context, moral hazard generally refers to the ex post opportunism of a party that, relying on the jurisdictional choice of forum that he strategically controls, has less than optimal incentives to behave efficiently in the ongoing legal relationship with the other party.

⁴⁶ Adverse selection problems are the consequence of informational asymmetries and ex ante strategic behavior of the informed party. The typical textbook example of adverse selection applies to the used car market in which sellers have better information than potential buyers on the quality (and defects) of the car. Under such scenario of asymmetric information, sellers of poor-quality cars (lemons) are more likely to sell their car at the going market price. See George Akerlof, *The Market for Lemons*, 84 Q.J. OF ECON. 588-500 (1970); Joseph E. Stiglitz & Andrew Weiss, *Credit Rationing in Markets with Imperfect Information*, 71 AM. ECON. REV. 393-410 (1981); Michael Spence, *Job Market Signalling* 87 Q.J. OF ECON 355-374 (1973); William Samuelson, *Bargaining under Asymmetric Information*, 52 ECONOMETRICA 995-1005 (1984). In our context, adverse selection refers to the ex ante strategic advantage of a party in the selection of his counterpart. Such strategic advantage often materializes in a participation choice in a legal relationship, when the other contracting party has no effective choice opportunity or exit option.

manipulated by the parties, effectively granting them direct control over the jurisdictional choice.

The presence of strategic participation and forum selection choices by the parties allows us to map nine alternative scenarios, in which the presence (or lack thereof) of unilateral or bilateral strategic opportunities for the parties generates an array of adverse selection and moral hazard problems. Table 1 represents the effect of the parties' ex ante participation choice and ex post forum choice on the adverse selection and moral hazard behavior of the parties.

		Ex Post Choice of Forum		
		Plaintiff (p)	Neither	Defendant (?)
Ex Ante Participation Choice	Plaintiff (p)	B's Adverse Selection + B's Moral Hazard	B's Adverse Selection	B's Adverse Selection +)'s Moral Hazard
	Neither	B's Moral Hazard	None)'s Moral Hazard
	Defendant (?))'s Adverse Selection + B's Moral Hazard)'s Adverse Selection)'s Adverse Selection +)'s Moral Hazard

Table 1: *The Strategic Moments of Forum Shopping*

Table 1 reveals an interesting interaction between the strategic participation choice and the strategic ex post forum selection choice. By allowing for cases in which neither party can effectively influence the participation or forum selection choices (i.e., situations labeled "Neither" in Table 1), we identify a total of nine possibilities.

The ideal benchmark case for our analysis is the one where neither party has any control on the participation or forum selection variables (i.e., case marked "None" in Table 1). An illustration of such an ideal case could be the case of a voluntary transaction in a competitive marketplace in which neither party has any ability to influence the forum selection without the consent of the other party. The eight remaining scenarios represent departures from the benchmark case. In all such cases plaintiffs and/or defendants control participation or forum selection choices.

The first two cases represent the most relevant and problematic departures from the benchmark case. These are cases of unilateral strategic opportunity for one party with no exit option for the counterpart. One of the parties controls both the participation and the forum selection choice. In one such case, the plaintiff holds such dual strategic advantage (i.e., the top-row/left-column case), while in the other case the defendant holds the dual strategic advantage (i.e., the bottom-row/right-column case). In the absence of price mechanisms capable of correcting such strategic advantage, the absence of an exit

option creates an opportunity for exploitation of the other party. For example, imagine an individual who could control both the participation choice and the choice of jurisdiction (e.g., a tortfeasor who can choose his own victim, with no opportunity for the victim to prevent such involuntary relationship). We could expect this situation to be quite problematic and affected by ex ante adverse selection and ex post moral hazard problems. Namely, the tortfeasor would likely choose the best victim for his own tort and yet minimize his expected liability costs by selecting the most pro-defendant jurisdiction. This would likely lead to inefficient outcomes, with a sub-optimal level of liability and deterrence and an excessive level of torts.

In four intermediate cases (i.e., all cases located in the middle-row and middle-column, other than the benchmark case), only one of the two strategic choices is effectively controlled by one of the players. This group of situations probably encompasses the most frequent cases of strategic participation and forum shopping, giving rise to unilateral adverse selection and moral hazard problems. As a simple illustration, we can think of the case in which the parties are randomly matched, with neither party controlling the participation choice, and where one of the parties controls the forum selection. In such cases, even though the parties cannot engage in ex ante adverse selection, they will act strategically in the forum selection, in order to maximize their net benefit from the relationship. Symmetrically, if neither party controls the forum selection, but one party controls the participation choice, ex ante adverse selection would likely take place.

The last two cases are interestingly characterized by the presence of bilateral strategic problems, in which both parties control one, and only one, of the two strategic moments. As seen in Table 1, the bottom-row/left-column case describes a situation where the defendant controls the participation choice and the plaintiff controls the forum selection variable (i.e., the defendant chooses his own plaintiff and the plaintiff has an exit option). Conversely, in the top-row/right-column case, the plaintiff controls the participation variable and the defendant controls the forum selection (i.e., the plaintiff chooses his own defendant and the defendant has an exit option). The opportunity for bilateral strategic behavior distinguishes these two hypotheses from all the previously examined scenarios. Interestingly, the presence of bilateral strategic opportunities can mitigate the problems of unilateral strategies that affect the other six scenarios. Bilateral strategic opportunities (under the form of abstained participation or ex post biased forum selection) allow one party to minimize the impact of the strategic behavior of the other party. In all such cases of bilateral adverse selection and moral hazard behavior, we would expect the equilibrium choice of jurisdiction to approach (but not necessarily coincide with) the ideal outcome of a non-strategic relationship or a bargained-for choice of forum. In this setting, the presence of two strategic problems, if appropriately combined, generates an outcome that is socially preferable to all the alternative unilateral strategy equilibria. While this outcome may fall short of reaching the ideal benchmark of non-strategic behavior, it would nevertheless constitute an improvement – possibly, a substantial improvement -- over the alternative unilateral problems.

The proof of this claim involves a mathematical elaboration that would fall outside the confines of the present analysis. We can nevertheless find some intuitive support for this result considering the interaction between the strategic choices of the two parties. First, let's consider an example where the defendant controls the participation

variable, choosing his own plaintiff, and where the plaintiff can control the forum selection. This could be the case of an intentional tort, where the tortfeasor chooses his own victim, with no opportunity for the victim to avoid such involuntary relationship. In this case, if the victim controls the forum selection, the choice would lead to the jurisdiction that grants the highest expected level of victim's compensation. Thus the ex post strategic choice of the victim would increase tortfeasors' liability and deterrence, offsetting the potential ex ante adverse selection of the tortfeasor. Similarly, an offsetting dynamic could also be expected if the plaintiff controls the participation variable and the defendant controls the forum selection. In both these cases the opportunity for bilateral strategic behavior for the parties would mitigate the extent of the unilateral adverse selection and moral hazard problems that are present in the other unilateral cases, without exit option.

In real-life problems, the first moment of the strategic problem that we have considered (i.e., the participation choice) is generally controlled by one of the parties, who enjoys an exogenous advantage in the selection of his counterpart. Such advantage is exogenously given by the intrinsic nature of the relationship or market structure, and cannot easily be influenced by the legal system. Conversely, the second moment of our strategic problem (i.e., the forum selection choice) is endogenously influenced by the legal system, which determines the connecting factors for jurisdictional conflicts. The above analysis therefore has very interesting policy implications for the appropriate design of conflict of law and jurisdictional competence rules. Namely, the important wisdom of the game-theoretic analysis suggests the following rules of thumb: (a) when neither party single-handedly controls the participation choice (such as in the case of a voluntary transaction in a competitive marketplace), the appropriate jurisdiction should be determined on the basis of connecting factors that cannot be single-handedly influenced by either party; (b) when only one of the parties has an exit option, controlling the participation choice of the other party, and in the absence of a price mechanisms for correcting the parties' adverse selection, the appropriate forum selection rules should give an advantage to the party without an exit option.

C. Race to the Courthouse and the Issue of Order Dependence

When the control of forum selection depends on the sequence (or order) of moves of the parties, opportunities for strategic forum shopping are present. Some criteria of jurisdiction are order-dependent because the status of one party as defendant (or plaintiff) depends on the order of moves of the parties in the litigation process. For example criteria of jurisdiction linked to the residency or place of business of the defendant (or plaintiff) are order-dependent, since the status of one party as defendant is contingent upon the existence of another party first filing suit against him, and vice versa. As discussed above, if some individuals are statistically more likely to be plaintiffs than defendants, such as property rights holders (copyright owner, patentee, or trademark owner), the opportunity for forum shopping may have distributional effects with a potential impact on the ex ante incentives of the parties. Another effect of order-dependent criteria of jurisdiction is given by the fact that in some situations potential litigants may attempt to exploit the plaintiff's advantage in forum selection. This may trigger a "race to the courthouse," inducing potential defendants to expedite their filing in order to preempt the

opponent's choice of jurisdiction. The "race to the courthouse" may inefficiently accelerate the filing process, bringing to trial cases that may not have matured into court claims, had they been left to the choice of the natural plaintiff.

In this setting, the *ex post* choice of forum is strategically determined, and the equilibrium solution of a forum shopping game is not likely to produce the most efficient level of litigation, nor lead to the optimal choice of law and jurisdiction. Continental conflict of law scholars have attempted to identify connecting factors that would avoid the undesirable effects of order-dependence, at least in those cases where forum shopping may result in the application of different substantive laws.⁴⁷ The most problematic cases of forum shopping are those with first-mover advantage problems and order-dependent criteria of jurisdiction.

In the absence of uniformity in the substantive law and in the conflicts rules, jurisdictional rules become critical factors in determining "uniformity" of outcomes and forum shopping. In such case, jurisdiction rules are sufficient to guarantee substantive and procedural uniformity,⁴⁸ only if they are not order-dependent.

IV. Forum Shopping and the Design of Forum Selection Rules in Intellectual Property

As the drafters of the proposal point out, unlike the Brussels Convention (which uses personal jurisdiction to identify the single most appropriate forum for the resolution of a particular dispute), and unlike the Hague Convention (which uses personal jurisdiction to create a narrow range of appropriate choices), the Dreyfuss-Ginsburg proposal identifies a set of fora with adjudicatory authority over the parties. This approach is admittedly followed in order to promote consolidation of cases and cooperation, in many ways resembling the multilateralist approaches of recent European trends.

According to the Dreyfuss-Ginsburg proposal, the parties' choices need not be narrowed if all courts seized with parallel litigation can be encouraged to consult with one another (and with the parties) in order to find the best place to adjudicate the entire dispute. On the same token, the proposal introduces greater degrees of freedom in the selection of a better forum if there are several courts that enjoy adjudicatory authority. Such criterion is applied with consideration of the convenience of alternative fora for the parties and witnesses, the expertise of the decision maker, and the relationship of the forum jurisdiction to the dispute. This solution is fully coherent with the realization that forum shopping in intellectual property disputes cannot be controlled through personal jurisdiction rules. As discussed above, this approach seems quite sensible in the context of intellectual property protection, in a borderless cyber economy, where intangible rights and infringements can be "reified" in too many locations to make personal jurisdiction an effective conflict of law criterion for the determination of jurisdictional competence.⁴⁹

⁴⁷ See, e.g., GIUSEPPE BARILE, *LEZIONI DI DIRITTO INTERNAZIONALE PRIVATO* (Padua, Italy: Cedam Publishing (second ed.) 1980) at 97-124.

⁴⁸ Interestingly, this is a feature that no other instrument can single-handedly deliver. When applied to outcomes, uniformity is meant in the sense of "predictable," i.e., same outcome for the same case regardless of *ex post* strategic choices of the parties.

⁴⁹ Dreyfuss and Ginsburg (2001), Executive Summary.

A. Single-Defendant Cases.

The basic rule establishing the jurisdictional competence is set out in Article 3 of the Dreyfuss-Ginsburg proposal, which substantially reproduces Article 3 of the 1999 Hague Draft.

Article 3 Defendant's Forum: Subject to the provisions of the Convention, a defendant may be sued in the courts of the State where that defendant is habitually resident.

The default jurisdictional rule of the Hague Convention and Dreyfuss-Ginsburg proposals can be evaluated in light of the issues of strategic forum selection and order-dependence.

First, with respect to the issue of strategic forum selection, the criterion of “habitual residence” raises possible problems when applied to a cyber world with costless relocation of virtual entities. The commentary of the Hague Draft Convention reveals lack of consensus on the appropriate definition of this default criterion of jurisdiction.⁵⁰ With respect to entity or person other than a natural person, the Convention refers alternatively to statutory seat, place of incorporation or formation, place of central administration, or principal place of business. In addition to such practical difficulties in implementation, this criterion allows for no exceptions to correct for the dual strategic problem discussed in Section III.B. To the extent to which intellectual property problems give potential plaintiffs no exit option (i.e., no control of the participation variable) the defendant’s forum may create double adverse selection and moral hazard problems. Fortunately, price mechanisms are likely to be in place in this area of the law, so that the defendant-dependent choice of jurisdiction, may be preemptively corrected by the potential defendant’s pre-commitment to an efficient jurisdiction, as a way to discount the resulting efficiency gain from the expected cost of the transaction. Absent such price mechanisms, the defendant’s forum may engender adverse selection and moral hazard problems because the defendant would generally enjoy a last-mover advantage (i.e., the defendant selects his own plaintiff, not vice-versa). If the plaintiff cannot price-discriminate between different types of defendants, strategic deadweight losses would therefore arise.

Second, the defendant’s forum rule can be evaluated with respect to the order-dependence issue. The idea that the default defendant’s forum rule is not order dependent is based on the premise that, in any given case, there is generally only one “natural” defendant. This may be a correct premise in most scenarios, but not without exceptions. Two main groups of cases have the potential of rendering the defendant’s forum rule order-dependent. First, situations where the ownership of an entitlement is uncertain and where two or more parties are actively utilizing such resource, are characterized by a symmetry between the positions of the various contenders, such that any one party is a potential plaintiff against all others. Second, even when entitlements are clearly allocated between the parties, the defendant’s forum rule could be affected by the filing of a declaratory judgment by the would-be defendant. The proposed draft convention

⁵⁰ See comment to Article 3 of the Hague Convention.

effectively addresses this latter problem in Articles 8 and 10, which will be discussed later in this section.

B. Multiple-Defendant Cases

Multiple defendant cases generally present complex problems that require a balancing of different concerns of procedural economy and predictability of judicial outcomes. The drafters of the proposed convention observe that as the economy becomes globalized, consolidation will prove increasingly necessary to achieve procedural economy. In the area of intellectual property, consolidation of parallel claims becomes particularly critical since rights in intangible works and rights over electronically transmissible products (such as digitized text, music or video files) can be readily accessed in different locations, making parallel infringements in multiple jurisdictions increasingly likely. The creation of a streamlined procedure to consolidate actions is thus necessary to promote the efficient adjudication of such disputes. The consolidation of claims will not avoid conflicting outcomes derived from the application of different substantive laws applicable to different branches of the dispute. Since the substantive intellectual property law is not harmonized among the contracting States, certain differences in outcomes will remain inevitable. Interestingly, however, the drafters believe that jurisdiction-driven differences in outcome are not negligible and explicitly point out that an important effect of Article 10 of their proposal is the avoidance of inconsistent results.

Article 10 of the Dreyfuss-Ginsburg proposal specifies a streamlined procedure for the consolidation of multi-defendant cases:

Article 10 Multiple Defendants 1. A plaintiff bringing an action against a defendant in a court of the State in which that defendant is habitually resident may also proceed in that court against other defendants not habitually resident in that State if [***] c. as between the States in which the other defendants are habitually resident, and the forum, the forum is the *most closely related* to the entire dispute, and there is no other forum in which the entire dispute could be adjudicated.

2. Paragraph 1 shall not apply to a codefendant invoking an exclusive choice of court clause agreed with the plaintiff and conforming with Article 4.

Article 10 of the proposal strikes a very sensible balance of the economic considerations examined above. Besides the obvious advantages for procedural economy, the unification minimizes the adverse selection problems. No single-defendant can unilaterally influence the choice of jurisdiction. Furthermore, the choice of the “most closely related forum” is not order-dependent, and such a criterion avoids the race-to-the-

courthouse problems that may be present under the single defendant cases.

We should further note that the “most closely related” test does not override an express choice of forum by the parties. This is necessary to avoid disturbing situations where the parties had an opportunity to “price” the actual choice of law and jurisdiction in their transaction.

C. *Jurisdiction for Declaratory Judgments and Lis Pendens*

As observed above, declaratory judgment actions frequently open up forum shopping opportunities by allowing would-be defendants to file for a declaratory judgment in a different jurisdiction. The relevance of declaratory judgment actions should be appraised in conjunction with procedural rules concerning *lis pendens* and *res judicata*. Whenever jurisdictional rules are order-dependent, they can point to more than one alternative fora with jurisdictional competence to hear a case, according to the order of filing of parallel claims.⁵¹ For example, if the *lis pendens* rule is applied according to the European standards,⁵² giving absolute preference to the court first seized, a troublesome opportunity for strategic filings would be created. Such strategic filing for a declaratory judgment could be aimed at delaying a negative judgment on the matter or at obtaining a more favorable judgment by the court chosen by the would-be defendants.

The Dreyfuss-Ginsburg proposal follows the Hague Convention’s approach, creating a presumption in favor of the forum first seized. However, Article 12.5 of the proposal creates an important exception to the presumption in favor of the court first seized, allowing a rebuttal of such presumption.

Article 8 Declaratory Judgments. 1. Actions for a declaration of rights may be brought on the same terms as an action seeking substantive relief.

Article 12 Lis Pendens *** 5. If in the action before the court first seized, the plaintiff seeks a determination that it has no obligation to the defendant, and if an action seeking substantive relief is brought in the court second seized -

- a. the provisions of paragraphs 1-4 above shall not apply to the court second seized, unless the declaratory judgment plaintiff has advanced its claim as part of an action initiated before the court first seized by the declaratory judgment defendant, and
- b. the court first seized shall suspend the proceedings at the request of a party if the court second seized is expected to render a decision capable of being recognized under the Convention.

⁵¹ Procedural rules of *lis pendens* generally address problems of this sort in order to avoid parallel litigation.

⁵² Other jurisdictions leave greater margins of discretion in the application of the *lis pendens* doctrine. Yet such margin of discretion to select the appropriate forum, unless selectively used to combat the strategic problems mentioned above, would not eliminate the underlying risk of forum shopping.

The drafters of the Convention are aware of the special problems raised by this group of cases, as amusingly discussed with reference to the *Italian Torpedo* case, where “a declaratory filing is made in an Italian court, where dockets move slowly, in order to block adjudication of an infringement action in a forum more likely to quickly award injunctive relief.”⁵³ In this context, the Dreyfuss-Ginsburg proposal intelligently preempts the otherwise pervasive risk of strategic misuse of declaratory judgment actions, Article 12.5 does not treat a pending declaratory judgment case as *lis pendens* for the purposes of forum selection, allowing a right holder to trump the defendant-turned-plaintiff’s choice by bringing action in the appropriate forum.

It is important to note that the combined application of Articles 8 and 12 avoids the most notable problem of the defendant’s forum rule contained in Article 8. The defendant’s forum rule in both Article 3 and Article 8 makes such criterion order-dependent. Article 12, corrects the main source of order-dependence, preempting most cases of strategic “races to the courthouse,” and avoiding an inefficient level of filings for forum shopping purposes. Declaratory judgments filed in order to establish *lis pendens* and to “steal the first move” from the natural plaintiff are uselessly filed. As the commentary makes clear “To prevent this especially corrosive kind of forum shopping, this provision [Article 12.5] follows the Hague draft’s lead by allowing a court seized with a coercive action—typically, an action for intellectual property infringement—to disregard the presumption in favor of the court first seized when the action in that court is solely declaratory. Instead, the court hearing the declaratory case must suspend its proceedings and allow the coercive action to go forward.”⁵⁴

By creating an exception solely for *lis pendens* (which obviously could not effectively apply to *res judicata*), the Dreyfuss-Ginsburg proposal distinguishes the case of declaratory judgments that are followed by a filing of a substantive suit from those that are not immediately followed by such action. This leaves some residual order-dependent effects in the criterion of jurisdiction found in Article 3. Those residual consequences of this case are not worrisome when the natural plaintiff can preempt the first move by filing a timely suit for substantive relief. Interestingly, would-be-defendants cannot file for a “negative declaration” prior to an actual infringement or substantial steps toward infringement.⁵⁵ And, significantly, would-be-defendants cannot file unless they have a

⁵³ Dreyfuss and Ginsburg (2001), comment to Article 8. The drafters point out that both the Hague drafters and the ALI’s International Jurisdiction and Judgment Project recognize that declaratory judgments could be strategically used by potential defendants to pre-empt a plaintiff’s choice of forum and to divert the case from the natural jurisdiction of the case. This may create particularly severe problems in the field of intellectual property in which a timely injunctive remedy is often necessary to grant effective protection of intellectual property rights.

⁵⁴ Dreyfuss and Ginsburg (2001), comment to art. 12

⁵⁵ See, e.g., *EMC Corp. v. Norand Corp.*, 89 F.3d 807, 811 (Fed. Cir. 1996) (holding that before a potential infringer can request a declaration of invalidity or noninfringement of a patent it must “actually produce or be prepared to produce an allegedly infringing product”); *BP Chem. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 978 (Fed. Cir. 1993) (noting that the declaratory judgment plaintiff must have engaged in “present activity which could constitute infringement or concrete steps taken with the intent to conduct such activity”); *Diagnostic Unit Inmate Council v. Films Inc.*, 88 F.3d 651, 653 (8th Cir. 1996) (holding that in a copyright case, “plaintiff must show that it has actually published or is preparing to publish the material that is subject to the defendant’s copyright [in a manner that] places the parties in a legally adverse

reasonable apprehension that they will be sued by the natural plaintiff (copyright, patent or trademark owner).⁵⁶ Generally, this means that unless the natural plaintiff threatens suit, the would-be-defendant cannot file suit for a declaration. Thus, pending a declaratory judgment action, natural plaintiffs would generally have an opportunity to counter-file for substantive relief, avoiding any possible *res judicata*, which would otherwise bring the case outside the scope of Article 12.5 and thus lead to order-dependent effects in the application of Article 3.⁵⁷

D. *Limiting the Convention to Copyright and Trademark Disputes Among TRIPS Member Countries*

The Dreyfuss-Ginsburg proposal mitigates international forum shopping for intellectual property dispute resolution in two additional ways. First, the Convention would only be open to TRIPS member countries and generally would cover the same rights covered by TRIPS.⁵⁸ Although this by no means guarantees that the TRIPS countries have the same substantive intellectual property laws, or that those countries have similar procedures, TRIPS did require all member countries to have certain minimum intellectual property protections. Countries are, however, free to adopt laws that provide protections greater than those minimum standards required by the treaty and are free to determine the appropriate method of implementing the treaty. Accordingly, there is still the opportunity for differing levels of protection and different procedures for enforcement even among the TRIPS member nations. Limiting the Draft Convention to TRIPS member countries will diminish, but not eliminate, international forum shopping.

Second, the Dreyfuss-Ginsburg proposal eliminates patent disputes from the scope of their convention. The rationale for excluding patent disputes is that the expertise required for accurate decision-making is high and there is a low incidence of simultaneous multinational infringement. While it is true that the Internet has facilitated copyright infringement to a greater extent than photocopiers and VCRs,⁵⁹ and certainly trademark infringement via domain name disputes, it likewise enables more patent infringement

position"); *Starter Corp. v. Converse, Inc.*, 84 F.3d 592, 595-96 (2d Cir. 1996) (holding that to bring a declaratory judgment action for noninfringement of a trademark the party must have either be selling a product with the trademark or have taken specific steps evidencing a concrete intent to use the trademark).

⁵⁶ *EMC Corp.*, 89 F.3d at 811 (holding that an infringer must have a “reasonable apprehension” of being sued by the patent holder before they can file a declaratory judgment action); *Diagnostic Unit*, 88 F.3d at 653 (holding that the “reasonable apprehension” requirement for bringing a declaratory judgment action exists in copyright cases too); *Starter Corp.*, 84 F.3d at 595 (holding that in order for an infringer to bring a declaratory judgment action the trademark owner’s conduct must evidence a “real and reasonable apprehension” of liability by the infringer).

⁵⁷ It should be noted that, while theoretically interesting, this residual case of adverse selection may well be an empty problem from a practical point of view. A *res judicata* for a declaratory judgment issued under Article 3, would be issued by the forum court of the “natural plaintiff” (i.e., IP right holder). No adverse selection problem would affect that outcome, since the natural plaintiff has incentives (and the opportunity) to establish himself in a favorable forum jurisdiction in the first place. This is again an application of the intuition developed above according to which forum shopping problems are *worst* when they are characterized by the combined presence of a last-mover advantage problems and order-dependent choice of law criteria.

⁵⁸ The Dreyfuss-Ginsburg proposal includes sound recordings, domain name disputes, and Paris Convention disputes.

⁵⁹ Photocopiers and VCRs permit small scale copying and distribution whereas the Internet with its digital networking creates an environment where large scale copying and distribution can occur.

especially in the case of patents directed to e-commerce (business method patents) or computer software. These patents, like copyrights, are particularly vulnerable to simultaneous multiterritorial infringement which is facilitated by the Internet.

Although there is logic to the notion that patent cases which are often technically complex benefit from adjudication by courts with expertise, many nations do not have courts of special expertise that adjudicate these cases. The commentary to the Dreyfuss-Ginsburg proposal suggests:

The technical incompetence issue might be addressed by limiting the consolidation of foreign patent actions to those states that have specialized technically competent jurisdictions, like the US Court of Appeals for the Federal Circuit, and similar courts in other jurisdictions.⁶⁰

Interestingly the court cited, the Federal Circuit, does not have specialized technically competent judges. Although all patent appeals in the U.S. are consolidated in the Federal Circuit, and accordingly simply through repetition the judges are exposed to numerous patent cases, the judges appointed to the court do not necessarily have any technical expertise or patent experience.⁶¹ Moreover, the Federal Circuit only gets patent cases on appeal after a lay judge and/or a lay jury has resolved them in the first instance. The suggestion of the proposal, however, to consider limiting jurisdictions to nations with special patent trial courts like Germany could alleviate the concerns of many companies over incompetent decisionmakers. It is doubtful, however, that nations without technically specialized trial courts (like the U.S.) would be willing to sign on to a treaty in which they would be bound to enforce the judgments of courts of other countries, but would not have the reciprocal power to adjudicate actions which would bind those same countries. Despite great harmonization efforts for substantive patent law, eliminating patent cases from the Convention is sound in light of the differing adjudication mechanisms of the various TRIPS countries that have evolved to resolve patent cases.

Conclusion

A game-theoretic analysis of forum shopping reveals how opportunities for strategic choices can influence the behavior of plaintiffs and defendants. In the idealized benchmark case, if neither party has the opportunity to make strategic choices about participation or forum choices, we should expect no adverse selection or moral hazard problems. By contrast, if only one of the parties can control both the participation and forum selection choices, then we could expect pervasive adverse selection and moral hazard problems. In intermediate but more frequent scenarios, only one party has control over one of the strategic moments of the forum shopping problem, with some persistence of the strategic deadweight losses present in the previous case.

In this paper we have briefly built on this simple game-theoretic framework, to suggest that if the parties are faced with a bilateral strategic problem (i.e., if one party has

⁶⁰ Dreyfuss and Ginsburg (2001), Draft Commentary to arts. 1 and 2.

⁶¹ At present, four of the twelve active judges have technical backgrounds (Judges Gajarsa, Linn, Lourie, and Newman).

control over one strategic choice and the other party has control over the other strategic choice), the extent of opportunistic behavior by either party and the resulting deadweight losses are likely to be minimized.

The Dreyfuss-Ginsburg proposal is sensibly designed in many respects. The draft reveals full awareness of the strategic dimension of forum shopping, helping minimize such problems in most scenarios. As the drafters point out in their introduction, “Where a general convention may be concerned with curtailing *forum shopping* by potential *plaintiffs*, an intellectual property agreement can also consider the ability of a potential *defendant* to gain litigation advantages through the choice of the location of the activities that give rise to infringement.”⁶² The game theoretic framework has confirmed the drafter’s intuition showing that, under most forum shopping scenarios, the presence of *bilateral* strategic opportunities for both plaintiffs and defendants is preferable to *unilateral* strategic problems.

Some problems related to forum shopping still affect the single-defendant scenario, addressed by the proposal's Article 3. The Article's habitual residence criterion raises implementation difficulties when applied in the cyber world, with costless virtual relocation. In such settings, the criterion is vulnerable to strategic use failing to adequately address situations where a defendant can unilaterally make strategic choices about both participation choice and forum selection. These problems are substantially resolved for the multiple-defendant scenario addressed in Article 10 of the Dreyfuss-Ginsburg proposal. Specifically, by allowing multiple claims to be litigated in the forum most closely related to a dispute, the proposal increases procedural economy, and reduces any one defendant’s opportunity to manipulate the forum selection criterion of habitual residence to his own advantage. This minimizes the *ex ante* problems of adverse selection and the *ex post* problems of moral hazard. Additionally, the rules applicable to multiple-defendant cases avoid the order-dependence of the “defendant’s forum” criterion of Article 3, and thus avoids strategic filings and race-to-the-courthouse problems. The same holds for the provision concerning declaratory judgments. The opportunity to file for declaratory judgments under Article 8 of the Dreyfuss-Ginsburg proposal, also creates order-dependence and race-to-the-courthouse problems. But the proposal's Article 10 intelligently addresses that problem by allowing an intellectual property right holder to trump the choice of forum by a declaratory judgment plaintiff, who races to file first. The Dreyfuss-Ginsburg proposal which sensibly minimizes the *ex ante* problems of adverse selection, the *ex post* problems of moral hazard, and strategic filing problems creates an enforcement scheme which leaves intact the innovation incentives underlying intellectual property rights.

⁶² Dreyfuss and Ginsburg (2001), Introduction.