THE NATIONAL LAW JOURNAL

IN FOCUS

MONDAY, FEBRUARY 11, 2002

INTERNATIONAL DISPUTES

Among recent trends, foreign courts are increasingly asserting jurisdiction over U.S. companies.

By Eugene Gulland
SPECIAL TO THE NATIONAL LAW JOURNAL

RECENT FOREIGN COURT decisions signal important trends for U.S. companies' risks of liability abroad. Foreign courts are adopting broader views of their jurisdiction. "Group actions"—as class actions are known in the United Kingdom—against U.S. companies are becoming more common. And the European Court of Justice (ECJ) is emerging as a key arbiter of business disputes for U.S. companies doing business in the European Union. While these trends pose some new challenges for U.S. companies that operate abroad, U.S. companies have also found ways to use foreign courts to protect their interests, particularly in enforcing their intellectual property rights.

Foreign courts are increasingly asserting jurisdiction over U.S. companies based on the site of the alleged injury, rather than the location of the allegedly harmful act. This approach magnifies the exposure of U.S. companies conducting business via the Internet. In August 2001, an Australian court asserted jurisdiction over Dow Jones & Co., based on its Internet publication, *Barrons Online*. Plaintiff Joseph Gutnick, a Melbourne-based businessman, alleged that a *Barrons* article titled "Unholy Gains" defamed him by falsely portraying him as a tax evader and money launderer. *Gutnick v. Dow Jones & Co.*, [2001] V.S.C. 305.

The Australian court framed the jurisdictional question by asking whether "Unholy Gains" had been published in New Jersey, the site of Dow Jones' server, or in the Australian state of Victoria, where Gutnick and an estimated 300 other people downloaded the article from Dow Jones' *Wall Street Journal* Web site. The court ruled that "Unholy Gains" had been published in Victoria because defamation law has "for centuries" viewed a "publication" as occurring wherever its contents are communicated to the reader.

Having found jurisdiction, the Australian court then considered whether the defamation action should be dismissed on grounds of forum non conveniens. The court followed *Berezovsky v. Michaels*, 2 All E.R. 986 (H.L. 2000), in which Britain's House of Lords concluded that England was an appropriate forum for a libel action brought by two Russian businessmen against the U.S.-based *Forbes* magazine.

Although *Forbes* had a circulation of only 2,000 copies and a total readership of 6,000 in England and Wales, the House of Lords found England to be an appropriate forum for the libel dispute because a tort had occurred there. The Australian court adopted this reasoning, which threatens to subject U.S. companies to worldwide jurisdiction for defamation, and perhaps other alleged torts, based solely on the company's Internet presence. The Australian High Court has granted Dow Jones leave to appeal the decision.

Eugene Gulland is a partner at Washington, D.C.'s Covington & Burling whose practice focuses on international litigation and arbitration. Mark Feldman and Donald Ridings Jr., associates at the firm, contributed to the preparation of this article.

Impact of the Yahoo! case

The Australian decision suggests that the recent and much discussed French Yahoo! Internet case may not be an aberration. In that case, the Court of Grande Instance in Paris found that Yahoo! had violated the French criminal code by allowing online auctions of Nazi-related objects to be accessible in France through Yahoo!'s Internet site. *UEJF et LICRA v. Yahoo! Inc.*, T.G.I. Paris, No. RG: 00/05308, May 22, 2000.

The court asserted jurisdiction over the U.S. company acting through servers based in the United States because the prohibited Nazi relics could be viewed and bid on through a Web site accessible in France. It did not matter to the court that only a tiny share of Yahoo! auction business consisted of Nazi relics. The French court ordered Yahoo! to eliminate all access in France to the Nazi-related online auctions available via www.yahoo.com, which in practical terms meant that Yahoo! should entirely exclude the controversial objects from its auctions.

The French Yahoo! decision was collaterally challenged in the U.S. courts, and in November 2001, a U.S. district court in San Jose, Calif., held that the First Amendment bars enforcement of the French court's order in the United States. *Yahoo! Inc. v. La Ligue Contre Le Racism et L'Antisemitisme*, 169 F. Supp. 2d 1181 (N.D. Calif. 2001). The court saw the issue as whether a foreign country may regulate speech by a U.S. resident within the United States on the ground that such speech can also be accessed by Internet users in that foreign country. It concluded that the First Amendment trumps considerations of comity. Even if this decision is upheld on the pending appeal, however, it will not protect U.S. companies from the enforcement abroad of Yahoo!-style orders issued by courts outside the United States.

Taken together, these Australian, English and French decisions suggest that foreign courts are increasingly reaching out to penalize U.S.-based companies for perceived harms arising from the content of Web sites accessible abroad. Furthermore, new jurisdictional theories often expand beyond the context in which they were created. For example, the broad scope of personal jurisdiction based on the situs of harm in libel cases that was endorsed in *Calder v. Jones*, 465 U.S. 783 (1984), has been applied to other torts. In *Janmark Inc. v. Reidy*, 132 F.3d 1200 (7th Cir. 1997), the appeals court concluded that when a California company allegedly issued a false claim of copyright infringement against its Illinois competitor's New Jersey customer, that act could constitute a tort "within" Illinois, the site of the alleged injury.

Similarly, a Canadian court recently employed analogous reasoning in a contract dispute. In *Pacific International Securities Inc. v. Drake Capital Securities Inc.*, [2000] B.C.C.A. 632, the British Columbia Court of Appeal found that a provincial court may exercise jurisdiction over a U.S. company, Drake Capital Securities, when damages were sustained in British Columbia, notwithstanding that the alleged breach of contract occurred in the United States.

In resolving jurisdictional questions in both contract and tort cases, foreign court decisions are increasingly placing substantial weight on the location where harm is said to have been suffered, even when the wrongful acts occurred elsewhere and there are few connections between the wrongful acts and the non-U.S. forum. This trend bears watching and suggests a growing need to consider including choice-of-forum clauses in commercial agreements.

Preferring non-U.S. forums

Recent foreign court decisions also suggest a more aggressive tendency to prefer non-U.S. forums and apply non-U.S. law to disputes involving U.S. companies. In May 2001, the English Court of Appeal upheld a lower court injunction that barred a U.S. company, Utrecht-America Finance Co., from prosecuting its lawsuit against a U.K. company, National Westminster Bank PLC (NWB) in California. *National Westminster Bank v. Utrecht Am. Fin. Co.*, 3 All E.R. 733 (C.A. 2001). Utrecht's California action alleged that NWB had failed to disclose material information to Utrecht in connection with a contract under which Utrecht had acquired NWB's interest in a 1996 credit agreement.

One English court ruled a party could not sue in U.S.

In *Utrecht*, the English court held that, because claims asserted in the California proceeding breached a contract provision excluding liability for nondisclosure, the parties were properly enjoined from proceeding in California. Under the contract, English law governed and the parties waived objection to English courts as an appropriate, but not exclusive, forum for proceedings under the contract. A nonexclusivity clause provided that parties could also bring actions under the contract in any other court of competent jurisdiction.

Assuming that California law (unlike English law) imposed on NWB a duty to disclose, the English court concluded that "however much" NWB might be liable under California law for failure to disclose material information, the California action could not proceed because it was in breach of the contract. The English court could have, but did not, leave it to the California court to recognize and enforce the applicable provisions; by affirming the lower court's injunction forbidding Utrecht from continuing its lawsuit, the English court effectively divested the California court of the case. (Even if the California court refused to recognize the injunction, Utrecht could have been held in contempt by the English court for prosecuting the California case.) Such a use of an antisuit injunction is aggressive. Cf. *Laker Airways Ltd. v. Sabena Belgian World Airlines*, 731 F.2d 909, 926 (D.C. Cir. 1984) (reasoning that international comity dictates that "parallel proceedings on the same in personam claim should ordinarily be allowed to proceed simultaneously"). In *Utrecht*, the contract contemplated that litigation might be filed in jurisdictions other than England, yet the English court enjoined litigation elsewhere.

In another recent case, the ECJ held that jurisdictional rules accepted by the contracting states to the Brussels Convention—i.e., members of the European Union—applied to a Canadian company, Universal General Insurance Co., that had brought a contract action in a French court against a defendant domiciled in Belgium. Case C-412/98, *Group Josi Reinsurance Co. S.A. v. Universal General Insurance Co.*, 2000 E.C.R. I-5925. The ECJ rejected the Canadian company's argument that the Brussels Convention jurisdictional rules do not apply if a plaintiff is not domiciled, and has no subsidiary place of business, in a contracting state.

The Belgian defendant had appealed an adverse French judgment to the Cour d'Appel, contesting French court jurisdiction under Brussels Convention rules, arguing that a company domiciled in Belgium, with no place of business in France, may be sued in Belgium but not France. The Cour d'Appel then referred to the ECJ the question of whether Brussels convention rules apply in a case brought by a national of a nonsignatory to the Brussels Convention.

By applying Brussels Convention rules to the Canadian plaintiff, the ECJ decision subjects non-E.U. nationals to its provisions, even though their country may not be a signatory. Thus, U.S. plaintiffs should expect litigation in E.U. states to be governed by the convention. There are now multilateral negotiations under way looking toward establishing a harmonized system of international

rules under the auspices of the Hague Convention on International Jurisdiction and Enforcement of Foreign Judgments. But even before completion of the Hague Convention, and any ratification by the United States, U.S. companies bringing actions in European courts against defendants domiciled in contracting states should expect Brussels Convention jurisdictional rules to apply.

Increase in mass tort cases

The increasing globalization of the class action also portends greater risks for U.S. companies that operate abroad. Esso Australia is girding for class actions in the wake of its August 2001 conviction for violations of the Australian worker safety statute after an explosion in one of its plants. And in China, lawyers filed a class action last year against Chinese and foreign tobacco companies. Other suits on behalf of at least some of China's 350 million smokers are almost certain to follow. Leslie Chang, "Lawyers Develop Strategy to Fight Chinese Tobacco," Asian Wall St. J., May 17, 2001, available at 2001 WL-WSJA 2778950. Meanwhile, England remains a forum of choice for many class action plaintiffs.

In *Lubbe v. Cape PLC*, 4 All E.R. 268 (H.L. 2000), the House of Lords reinstated a group action brought by 3,000 plaintiffs who alleged that they had been injured by exposure to asbestos from the English defendant's asbestos mining and milling operation in South Africa. On appeal from the defendant's application to stay the case on grounds of forum non conveniens, the House of Lords held that the case should proceed in English courts as a group action.

Lubbe illustrates the growing availability of the United Kingdom as a forum for large international commercial disputes. All of the asbestos operations at issue were located in South Africa, and all of the alleged harms were sustained there. Much of the evidence was located in South Africa, and all but one of the 3,000 plaintiffs resided in that country. Although the Lords agreed that South Africa should be the most appropriate forum, they concluded that the unavailability of legal aid, the complexity of contingency fee arrangements and the absence of developed procedures for handling group actions rendered the South African forum a poor choice for this type of mass tort litigation. Decisions such as this one, coupled with the availability of public funds for financing group action litigation and the recent adoption of "conditional fee" (quasi-contingency) arrangements, make the English courts an increasingly attractive destination for global forum shoppers. That is particularly so because U.S. courts are frequently refusing to entertain comparable cases involving U.S. companies sued on account of their operations abroad. Cf. *Torres v. Southern Peru Copper Corp.*, 113 F.3d 540 (5th Cir. 1997) (affirming dismissal of mass tort class action brought against U.S. companies by residents of Peru).

There are also advantages

Although actions in foreign courts are a source of increasing risk to U.S. corporations that operate abroad, the trend toward globalization of litigation can also offer advantages—particularly in connection with the enforcement of rights in intellectual property.

In *MCA Records Inc. v. Charly Records Ltd.*, [2001] E.W.C.A. Civ. 1441, the dispute centered on the ownership of the famous Chess Label recordings of songs performed by Bo Diddley, Chuck Berry, Muddy Waters and other American jazz and blues artists. Defendant Charly Records, an English company, claimed a worldwide license, derived from a U.S. company, to manufacture and distribute copies of the Chess master recordings. MCA successfully sued Charly Records and its corporate affiliates in a California court, and then filed suit in the United Kingdom seeking damages and injunctive relief against the same corporate defendants, as well as Charly Records' key U.K. employee, Jean Luc Young.

The English Court of Appeal affirmed the trial court's holding that Young (and other corporate directors or officers) can be jointly liable with the company, even without piercing the corporate veil, when there is "concerted action" between the director or officer and the corporation in taking the acts that gave rise to the tort. The court's willingness to impose such broad personal liability on individuals operating under the aegis of companies offers an important new enforcement weapon against would-be infringers of intellectual property. In another international IP dispute, Levi Strauss & Co. won an important ECJ victory in November 2001 that imposes a duty on E.U. importers—in this case, the English supermarket chain Tesco Stores Ltd.—to demonstrate the brand owner's consent for the marketing of branded goods anywhere within the European Economic Area (EEA). Case C-415/99, *Levi Strauss & Co. v. Tesco Stores Ltd.* Levi Strauss initially sued Tesco in England, alleging that Tesco's import and sale of "grey market" jeans purchased outside of Levi Strauss' approved distribution channels infringed its trademark rights.

The English court referred to the ECJ Tesco's argument that brand-owner consent may be implied because the contracts under which Tesco imported the goods placed no restrictions on sales of Levi jeans within the EEA, and Levi Strauss had failed to give notice to Tesco of any restrictions that may run with the goods. In rejecting Tesco's position, the ECJ held that E.U. trademark law required importers to "unequivocally demonstrate" consent by the brand owner to the import and sale of their goods within the EEA, which in most situations will require express consent.

The *Levi Strauss* decision builds on another recent win by another U.S. brand owner, Sebago Inc., in a similar trademark dispute initiated in a Belgian court that was referred to the ECJ. Case C-173/98, *Sebago Inc. v. GB-Unic S.A.*, 1999 E.C.R. I-4103. The ECJ found that Sebago's consent to the marketing of goods within the EEA could not be inferred from its prior consent to the marketing of similar or otherwise identical goods. The two ECJ decisions illustrate both the effective use of foreign courts in policing intellectual property use and the growing importance of the ECJ in bringing uniformity to intellectual property protection throughout the EEA.

Foreign brand owners are also making gains in China. In a recent trademark case, a Chinese court, applying the Paris Convention for the Protection of Industrial Property, found that the trademark of a foreign company—the Swedish home furnishings maker IKEA—had been infringed by the Chinese International Network of Information Co., which had used the IKEA brand in its Internet domain name. "China—First in Line: Court Rules for Foreign Company in Domain Name Case," China Online, June 23, 2000, available at 2000 WL 4756116.

U.S. companies that operate abroad increasingly need to consider both the risks and opportunities presented by foreign courts. Foreign courts are expanding their jurisdictional reach, permitting multiplaintiff actions to proceed in areas such as products liability and mass personal injury cases, and are preferring their own law and forums in the absence of contrary contract provisions. At the same time, foreign tribunals are also becoming more important in the protection of the intellectual property and other rights of U.S. companies. Counsel to U.S. companies active abroad need to consider both the risks and opportunities, and advise their clients accordingly.